FINANCIAL TIMES

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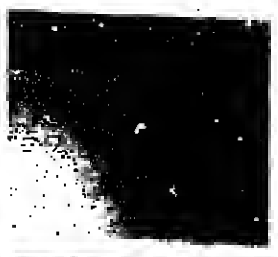

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Maize row looms as EU threatens exports from US

The European Union is threatening to block US exports of a genetically engineered type of maize in a move which could hit all US maize sales to the EU and provoke a fresh trade row. Authorities fear the maize, developed by Swiss-based chemicals group Ciba to be genetically resistant to a devastating crop pest, could have implications for animal and human health and the environment. The maize has been licensed in the US and Canada. Page 10

Lufthansa chief calls for wages freeze: Lufthansa chairman Jürgen Weber called for a wage freeze and longer working hours, warning that the German airline's long-term survival was at risk unless it brought costs under control. Page 10

Smurfit falls 37%: Irish paper group Jefferson Smurfit underlined the extent of the downturn in the global market when it reported first-half pre-tax profits 37 per cent lower at I£126.2m ($204.8m). Page 11; Lex, Page 10

Airbus reports $3bn orders: Airbus Industrie, the European aircraft consortium, announced orders worth $3bn at the UK's Farnborough Air Show. Page 4

German bank probe extended: German tax authorities extended their investigations into alleged tax evasion to Westdeutsche Landesbank, the country's biggest public sector bank. Officials are looking into suspicions that funds have been transferred to foreign centres to escape German taxes. Page 2

US law firms lead in global deals: Leading US law firms are well ahead of their London rivals in the market for global equities work, a survey shows, despite UK firms hiring top US securities lawyers. Page 6

Ramos orders scrapping of Subic deal: President Fidel Ramos of the Philippines told Subic Bay, the country's largest duty-free zone, to reverse a decision awarding the contract to run its container terminal to a subsidiary of Hong Kong-based Hutchison Whampoa. Page 4

Changes sought at French bank: The chairman of the French Senate committee on banking called for radical changes at Caisse d'Epargne, the country's savings bank network, which has been criticised by its commercial rivals. Page 2

Chief justice seeks top Hong Kong job: Hong Kong's chief justice, Sir Ti Liang Yang, said he would run for the post of chief executive, intensifying competition for the territory's top job after the handover to China on July 1 next year. Page 4

Electrafina may sell Tractebel stake: Electrafina, the energy subsidiary of Belgian holding company Groupe Bruxelles Lambert, said it was considering selling its 20.3 per cent stake – worth more than $1bn – in Tractebel, the fast-growing Belgian energy group. Page 11

Tokyo plans emergency budget: Leaders of Japan's coalition government agreed to produce an emergency spending plan, expected to be worth at least Y3,000bn ($27.8bn), in an effort to prevent the economy from slipping back into stagnation. Page 4

Investors shun Russian gas projects: Low foreign investment in the gas industry in Russia and central Asia is holding back the region's potential as a producer and exporter, the United Nations Economic Commission for Europe says. Page 4

Thai debt downgraded: US credit-rating agency Moody's downgraded Thailand's short-term sovereign debt ratings, saying the country was increasingly vulnerable to "financial shock" because of "rapid and recent accumulation of short-term external debt". Page 4

Uzbekistan seeks telecoms help: Uzbekistan invited western companies to remodel and operate its local telephone networks but did not offer international credits, government guarantees or free pricing. Page 4

Award for FT journalist: Bernard Gray has been named defence aerospace journalist of the year by the Royal Aeronautical Society. The award was presented at a gala dinner to coincide with the Farnborough air show.

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,638.03	(+21.82)
NASDAQ Composite	1,138.01	(-2.49)
Europe and Far East		
CAC40	1,971.43	(-5.55)
DAX	2,510.77	(-22.11)
FT-SE 100	3,855.9	(-26.5)
Nikkei	20,185.15	(+81.04)

GOLD

New York Comex		
Dec	$390.8	(391.5)
London:		
close	$385.85	(386.8)

US LUNCHTIME RATES

[illegible]

DOLLAR

[illegible]

OTHER RATES

[illegible]

STERLING

[illegible]

NORTH SEA OIL (Argus)

[illegible]

[illegible]

Saddam defiant after US attack

Iraqi leader orders forces to hit back at allied jets

By Edward Mortimer in London, Patti Waldmeir in Washington and John Barham in Salahuddin (northern Iraq)

President Saddam Hussein responded defiantly yesterday after the US launched one of the biggest strikes against Iraq since the Gulf war.

The US fired 27 cruise missiles at targets in southern Iraq in response to attacks on the Kurds in the north.

The Iraqi leader ordered his air defence to "hit back with capability and efficiency" at aircraft patrolling the no-fly zones.

In Washington President Bill Clinton announced that the US was extending northwards its no-fly zone in southern Iraq, so as to "deny Saddam control of Iraqi air space from the Kuwaiti border to the southern suburbs of Baghdad".

He also said the food-for-oil deal between Iraq and the UN would be suspended until it was clear that food and humanitarian supplies would reach the people for whom they were intended. This means Iraq "will not be allowed to export oil for some time", according to Mr Nicholas Burns, the state department spokesman.

Oil prices rose sharply initially yesterday as traders adjusted to the prospect that Iraqi oil will not be a factor in the market. Benchmark Brent Blend for October delivery hit a high for the day of $22.85 a barrel, before falling back sharply in late London trading to around $21.70.

Mr Mike McCurry, the White House spokesman, said the US would not try to evict Iraqi troops from the Kurdish safe haven in northern Iraq as this would require ground troops. Iraqi troops still control Arbil, the Kurdish regional capital seized with a Kurdish group on Saturday, he added.

They were yesterday shelling the approaches to Sulaimaniya, the stronghold of a rival, anti-Saddam Kurdish group led by Mr Jalal Talabani, south-east of Arbil.

The US missile strikes drew sharp condemnation from much of the Arab world, and also from Russia, while normally pro-western states such as Egypt and Jordan expressed concern. Among Arab states, only Kuwait gave support.

France also withheld support, pointing out that "Iraq is acting entirely on its own soil" and in response to "a written request from one of the main Kurdish movements". But Paris did also send a message to Baghdad, stressing "the need to continue withdrawing effectively the forces involved on the ground".

By contrast, Mr John Major, the UK prime minister, gave "very strong support" to the US action. British ministers said they had been consulted before the attack took place, and that the UK had offered support for refuelling US bombers. Mr Michael Portillo, UK defence secretary, did not rule out further attacks.

Western intelligence sources said Mr Saddam's threat to shoot down allied aircraft could not be taken lightly, since the extension of the no-fly zone would bring allied aircraft much closer to Iraq's heaviest concentration of surface-to-air missiles.

They also expressed fears that the Iraqi leader might

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- Iraqi leader misjudges reaction of the US

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A Tomahawk cruise missile is launched from the destroyer USS Laboon during the early-morning assault on southern Iraq Picture: AP

De Benedetti quits as head of Olivetti

Emergency board meeting as share price continues to weaken

By David Lane in Rome

Mr Carlo De Benedetti last night resigned as chairman of Olivetti, the Italian electronics group. The move followed an unexpected emergency board meeting in Milan. The board subsequently announced a pre-tax loss of L440.2bn after a L800bn provision against expected losses on selling part of the group's struggling computer business. The group made an operating loss of L80.8bn.

There had been speculation that Mr Francesco Caio, chief executive of Omnitel, the mobile telephone company in which Olivetti has a 41 per cent stake, has clashed with Mr DeBenedetti on how frank the group should be in explaining its position to the market. Mr Caio was appointed group managing director following the departure of Mr Corrado Passera at the end of June. Mr De Benedetti, who has run the Italian information technology group since 1978, will be replaced by Mr Antonio Desone.

Olivetti's shares have consistently underperformed following a L2,257bn (£955m) rights issue last year which resulted in about 70 per cent of the shares being held by international investors. Brokers said there was concern that a large part of this might have been swallowed up by losses by the end of this year, leading to a further cash call.

Institutional shareholders representing about 25 per cent of Olivetti's stock held a meeting in London last week at which concerns were expressed about the lack of information on developments at the group.

Shareholders complained they had not been informed about management changes and the implications of these for company strategy.

The board met unexpectedly after the company's shares fell sharply in early trading. Shares closed 5 per cent lower at L726 in response to continuing uncertainty about group strategy and in expectation of disappointing interim results and are now nearly 30 per cent lower than last year's issue price of L1,000. Half-year figures are expected to be announced after a board meeting planned for September 26.

Although Olivetti said in July that the PC group it established this year had broken even in the second quarter, it warned that forecasts of tougher market conditions in the second half could affect results. Given past heavy losses, more difficulties with PCs would not be a surprise.

Ms Paola Toschi of Milla Sim, a Milan securities house, said Olivetti's systems and services business had also suffered this year and might provide a fresh source of bad news. Other brokers said Olivetti must do more to convince investors that it was seeking to enhance share- holder value. They said spinning off Omnitel and solving the personal computer problem by closing the PC company would be steps in the right direction.

Deutsche to inject $300m into suspended UK funds

By John Gapper and Roger Taylor in London

Deutsche Bank, the German bank, was last night preparing to inject £200m ($312m) in cash into three suspended investment funds run by its UK subsidiary, Morgan Grenfell Asset Management, in order to restore confidence among 90,000 investors.

Deutsche faces an unknown loss in buying out a portfolio of unlisted securities held in the £1.4bn funds. The move comes after a fund manager at Morgan Grenfell was suspended amid an investigation into the securities.

Morgan Grenfell Asset Management announced that it would resume trading in the three funds, which include two unit trusts, tomorrow. The deal allows both unit trusts involved to resume at nearly the same price.

Mr Peter Young, the fund manager in charge of the largest unit trust, Morgan Grenfell European Growth Trust, has been suspended by his employer. MGAM has instructed him not to speak publicly about the circumstances.

Deutsche will absorb the risk of the unlisted securities being worth less than the sum reflected in their unit trust prices before the suspension on Monday. The securities were being re-valued yesterday by advisers.

Such a move is unprecedented in the UK unit trust market, which is regulated by the Securities and Investments Board and the Investment Management Regulatory Organisation, and has a reputation for providing a relatively safe method for private investors.

Mr Clive Boothman, the chairman of the Association of Unit Trusts and Investment Advisers, said he hoped there

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USAir offers deal in effort to settle action against BA

By Michael Skapinker, in London

USAir is ready to settle its legal action against British Airways out of court if BA is prepared to discuss its future relationship with the US airline and help it set up its own service to London's Heathrow airport.

USAir is understood to be ready to give political support to the planned alliance between BA and American Airlines, which has been strongly opposed by most other US carriers, if it can resolve its differences with the UK airline.

BA owns a 24.6 per cent stake in USAir and has three representatives on its board. Relations between the two deteriorated sharply after the UK carrier announced in June its planned link-up with American. USAir said BA had not consulted it over the alliance.

In July, USAir launched a legal action against BA and American in the US courts, alleging that the planned alliance was anti-competitive. Last month, USAir applied to the US transportation department to fly between four US cities and Heathrow in direct competition with BA.

Attempts by USAir to speak to BA executives about their relationship, which dates back to 1993, have been rebuffed. The UK carrier insisted the legal action be dropped first.

USAir is believed to want to discuss whether BA representatives could sit on the US carrier's board once the alliance with American is concluded. BA and American have applied for anti-trust immunity from the US authorities, which would permit them to co-ordinate their flights and operations more closely than would otherwise be permitted by law. Although BA and USAir co-ordinate schedules, they do not have anti-trust immunity.

USAir is understood to have accepted that the US authorities are unlikely to grant it anti-trust immunity if it becomes part of a three-way alliance with BA and American. USAir believes this would reduce it to the status of being a mere feeder service to BA and American.

For this reason, USAir wants to operate independently. USAir is thought to be demanding BA's assistance in helping it fly to Heathrow as the price of settling the action.

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Alexander Lebed displays the text of the peace deal with Chechnya yesterday Reuter

Lebed pushes Chechen agreement

By Chrystia Freeland in Moscow

Between 70,000 and 90,000 people have died in the Kremlin's 21-month battle to subdue Chechnya's bid for independence, Mr Alexander Lebed, the Russian security chief, said yesterday.

The announcement, which more than doubles previous estimates and would make the Chechen war Russia's most lethal conflict since the second world war, was part of Mr Lebed's aggressive public relations campaign to win popular support for the peace deal that he concluded with Chechen separatists over the weekend.

In a bravura performance designed for television cameras, Mr Lebed mixed plain talk about the consequences of the Chechen war with dark conspiracy theories about the forces in Moscow determined to prolong the suffering.

The agreement, which has brought hostilities to an end for the first time in nearly two years, yesterday won only lukewarm support from Russia's ruling circles and some observers fear that the truce could falter without open backing from the Kremlin.

In an endorsement most notable for its lack of enthusiasm, Mr Victor Chernomyrdin, the Russian premier, yesterday told a meeting of local leaders in the North Caucasus: "The agreements signed by Lebed cause some concern but on the whole we consider them right."

According to the Russian news agency Interfax, another participant in the meeting, Mr Yuri Luzhkov, the influential mayor of Moscow, opposed the peace plan, saying it threatened the territorial integrity of Russia.

Mr Lebed's allies have attributed criticism of his peace initiative to rivalry in Moscow, where some fear a successful deal in Chechnya could make the former general unbeatable in the race to succeed Mr Boris Yeltsin, the Russian president.

Mr Lebed sought to deflect these potential jealousies, insisting yesterday he had not "launched a presidential campaign" but was merely trying to end the war.

But in the wise-cracking style which has made him popular with voters, the security chief also suggested the peace process was being hampered by inadequate support from the president. "I can do everything myself," Mr Lebed said, "but open and public support from the president wouldn't hurt."

Mr Lebed also hinted at a rather passive presidential attitude to his envoy's activities in Chechnya.

During recent telephone conversations with Mr Yeltsin, he said: "He [the president] didn't say anything. But silence is a sign of agreement."

The former paratrooper alleged that other government insiders were far more hostile to the peace process, going so far as to try to intimidate Mr Lebed into abandoning the deal.

EUROPEAN NEWS DIGEST

German bank probe widens

German tax authorities have extended their investigations into alleged tax evasion to Westdeutsche Landesbank, the country's biggest public sector bank. It said yesterday officials were looking into suspicions that funds had been transferred to Switzerland, Luxembourg and other foreign centres to escape German taxes.

The state prosecutors office in Düsseldorf, where WestLB is based, said it was investigating customers and employees for possible collusion in tax evasion. The bank said it was convinced it had fulfilled its legal requirements and that the allegations would prove unfounded.

WestLB is the latest bank in Germany to be investigated for allegedly helping customers slip through the tax net. Others include Dresdner Bank, Commerzbank, Hypo Capital Management (part of Bayerische Hypotheken- und Wechsel-Bank) and Merrill Lynch of the US. It is not illegal to move funds abroad but tax on the investment income has to be declared.

The prosecutors office said WestLB offices in Germany – including Düsseldorf – had been searched for documents. Four savings bank branches in the state of North Rhine-Westphalia were also being investigated. WestLB provides financial services, such as transfers abroad, for regional savings banks and also manages assets of wealthy clients. *Andrew Fisher, Frankfurt*

Russia seeks new $1bn loan

Russia's financial authorities are to seek a $1bn loan from the World Bank to help restructure the country's fragile banking system, hard hit by a rapid decline in inflation which has exposed the banks' bad loans portfolio.

A tight monetary squeeze and budget support loans from the International Monetary Fund have helped inflation fall from a monthly high of 18 per cent in January 1995. Goskomstat, the state statistics committee, said this week prices had remained stable in August, the first month of zero inflation since reforms began.

Russia's success in stabilising the economy and defending the relative value of the rouble has made life tougher for the country's 2,100 banks, which made easy money from cheap central bank credits and currency depreciation. Mr Alexander Khandruyev, first deputy chairman of the central bank, said that Russia would like to use a World Bank loan to help restructure the banking system, establish a household deposit insurance scheme, and also create an agency to manage the assets of bankrupt banks. *John Thornhill, Moscow*

Spanish hazelnut protest ends

Farmers in Catalonia voted to end a fierce 32-week protest campaign after the Spanish government agreed to help fund hazelnut producers hit by competition from Turkey. Under the deal growers are set to receive Pta600m ($4.8m) in European Union-backed funding, including Pta100m from central government.

The local Peasants' Union expressed "moderate euphoria" at the grant, complaining it had not been made earlier. Protests in the region this year have included the partial destruction of a processing plant and a sit-in in Tarragona cathedral. The growers won support for their case from Catalonia's ruling coalition, which controls the balance of power in the Spanish parliament and is currently negotiating a national budget deal with the centre-right government in Madrid. *David White, Madrid*

German industrial output rises

German industrial production was 0.2 per cent higher in July than in June, causing analysts to suggest that strong second quarter GDP growth – for which final figures are expected tomorrow – has carried over into the third quarter, albeit at a slightly slower rate. July's increase is the fifth in a row which indicated that "the economy is in a nice uptrend," according to Mr Holger Schmieding, economist at Merrill Lynch in Frankfurt.

The seasonally adjusted month-on-month figures were driven by a 4.2 per cent surge in construction output, but the federal economics ministry warned that the increase reflected efforts to catch up on work lost during a cold winter rather than new growth in a beleaguered construction sector.

Losers on a month-on-month basis were non-durable consumer goods, which fell 3.9 per cent, and the mining sector, which dropped 3 per cent. On a calendar adjusted year-on-year basis July industrial production was 0.5 per cent above July 1995 with the strongest growth in consumer durables (7.9 per cent) and investment goods (3.3 per cent). *Michael Lindemann, Bonn*

Swedes call time on moral decay

Ruling SDP has been buffeted by a string of allegations. **Greg McIvor** reports

Politicians from Sweden's ruling Social Democrat party have encountered a frosty reception while mingling with the voters during the long summer recess.

The cause is not just the record unemployment or the cuts in public spending – it is chiefly because every time Swedes open their newspapers there is a fresh allegation of corruption against a public figure.

In power for all but a handful of the last 65 years, the mighty SDP has been a byword for moral probity. Its dominance has set the high standards Swedes expect from public figures, and there has been real shock, followed by outrage, as allegation has followed allegation.

Charges of double standards have been levelled against the political elite as the government has imposed a stringent fiscal regime at national and local level aimed at restoring stability to state finances.

The SDP's troubles began last year when Ms Mona Sahlin resigned as deputy prime minister after revelations that she used a government credit card for private purchases, and was late in paying household bills.

She was cleared of all wrongdoing, but since then the SDP has been buffeted by a string of disclosures – mostly in local government, which is dominated by the SDP.

Instances of financial wrongdoing have been alleged in half a dozen municipalities.

The sums involved have generally been small, sometimes as little as a few thousand kronor, but the allegations have forced the resignation or suspension of local SDP representatives.

Most damaging is the case of Mr Sigvard Marjasin, a former union leader closely tied to the party, who is being investigated by public prosecutors on allegations of fiddling his expenses while governor of the county of Orebro.

The affair precipitated Mr Marjasin's resignation as head of the latest parliamentary commission into the still unsolved assassination 10 years ago of Mr Olof Palme, former SDP prime minister.

Mr Marjasin allegedly repeatedly sent invoice photocopies to two or more bodies for reimbursement. A cat and mouse game with reporters ended in a rambling television interview in which he claimed he had done nothing wrong.

In Gävle, north of Stockholm, the heads of the city council and county council were forced to resign after being accused of visiting a Brussels pornographic club on taxpayers' money.

This week, a prominent SDP politician in the southern town of Linköping resigned after a newspaper claimed he made a hunting trip to Poland paid for by public funds.

He had said he was visiting a steelworks.

Mr Björn Rosengren, former head of Sweden's largest white-collar trade union, which has close links to the SDP, was criticised for taking a large "golden parachute" – a contractual severance payment.

Public anger was compounded by the fact that he moved on to a highly paid county governor's job, while retaining the "golden parachute" money.

Additionally, there has been public outrage at "fat cat" salaries and bonus payments in the public sector. The former head of the state-owned retail pharmacy monopoly, Apoteksbolaget, was censured by fellow directors this year after bypassing the board to award himself a 60 per cent annual pay rise to Skr420,000.

Sigvard Marjasin: quit as head of commission probing Palme's assassination after allegations over expenses

A recent opinion poll suggested Social Democrat support was unchanged after the summer scandals, but few doubt that public esteem for politicians has slumped.

"It has been very damaging for the Social Democrats and for all political parties," says Mr Arne Kjörnsberg, head of a parliamentary working group set up by Mr Göran Persson, prime minister, to examine public ethics and morals.

The committee is considering proposals including regulating golden parachutes in the public sector and stricter control of accounting practices.

Its recommendations cannot come quickly enough for Mr Persson, who acknowledges the perils of the malaise.

"If we do not quickly and resolutely implement new procedures and show taxpayers that we take this problem seriously, it can grow into a boil on the body of society," he told a rally.

The view is shared by Mr Olof Johansson, leader of the Centre party, which has an unofficial alliance with the SDP.

He has advocated a tax on golden parachute payments, and called for a "climatic change" in Sweden's moral fabric.

Several cabinet ministers have blamed a weakening of morals in the 1980s for the apparent fall in standards in public life. Ms Ingela Thalen, SDP party secretary, said the public sector had picked up bad examples of excessive pay and financial irregularities from private business.

Another factor is that under Sweden's freedom of information laws anyone can scrutinise individuals' tax returns and public sector employees' expenses.

The SDP has discovered that this transparency – unmatched outside Scandinavia – is not always enough to offset temptation.

German plea to reduce non-wage costs

By Wolfgang Münchau in Frankfurt

The German chemicals industry paid nearly as much in non-wage employment costs, such as social security contributions, as it paid its workers in wages last year, the employers' federation, BAVC, said yesterday.

An industry study found these indirect costs reached 98.7 per cent of the level of actual wage costs last year.

The industry called for substantial cuts in employers' costs to retain its international competitiveness.

The bulk of the indirect costs are statutory contributions to social security funds, such as pension schemes and health insurance, and are the main source of finance for the German welfare state.

On top of that, under industry-wide agreements, employers pay other

Chemicals industry keen to reduce threat to international competitiveness

benefits such as holiday and sickness pay and a 13th monthly payment as an end-of-the-year bonus.

BAVC said indirect employment costs were rising more quickly than wages. This increases the cost to employers of even moderate pay agreements.

Last year, the indirect costs went up by almost 6 per cent, while wage rises lagged behind at 4 per cent. On average, the total cost of employing a German chemicals worker is DM107.15 ($72.40) an hour.

Mr Ludwig Georg Braun, president of BAVC, called for a "mid-term framework for wage policy in Germany".

This would involve preventing the wage gap between German workers and those in other countries widening further.

"The other step to improve our competitive position has to come from cuts in indirect wage costs."

The comments are directed partly at the government but also at IG Chemie, the chemicals union, to persuade it to continue a policy of wage moderation.

The industry, which is known for exemplary labour relations, this year agreed on a modest annual wage increase of 2 per cent in exchange for jobs guarantees.

It is also unique in Germany for having agreed a number of clauses in the national agreement allowing employers in temporary difficulties to opt out of parts of the agreement.

It is thought that sick pay, which contributed 5 per cent to indirect employment costs, is to be discussed in next year's wage round.

The chemicals industry hopes a planned change in Germany's sick leave laws could lead to a substantial cut in wage costs, if it agrees a deal with IG Chemie.

Earlier this year the government proposed to end the employers' obligation to pay a sick worker full pay from the first day of illness.

A 20 per cent reduction in these payments and a 1 per cent reduction in absentee rates could save the chemicals industry about DM800m, according to BAVC.

French savings bank network 'must change'

By Andrew Jack in Paris

The chairman of the French Senate committee on banking yesterday called for radical changes in the structure and operation of the Caisse d'Epargne, the country's savings bank network, which has come under increasing criticism from its commercial rivals.

Mr Philippe Marini, deputy head of the French Senate's finance commission, said in an interview the law should be changed to force the group to provide a better return on its equity and remunerate its shareholders.

Stressing he was speaking in a personal capacity, he added that it should adopt more of a "culture of enterprise" and eventually sever its links with the state-backed financial institution, the Caisse des Dépôts et Consignations, which owns 35 per cent of its shares.

The remaining 65 per cent is held by the 35 regional savings banks in its network.

Members of the finance commission are currently conducting hearings, under Mr Marini's chairmanship, on reforms of the banking system. Mr Marini, who is close to Mr Jean Arthuis, the finance minister, has also been asked by prime minister Alain Juppé to prepare guidelines on changes to companies' legislation, which are due to be unveiled next week.

The French commercial banks have attacked both the fact that the Caisse d'Epargne is not obliged to pay dividends on its shares, arguing that this distorts competition as it enables the savings bank network to undercut them.

They also complain that Caisse d'Epargne has exclusive rights to offer the Livret A, a tax-exempt savings product and claim that it has reduced its interest rates to uncompetitive levels.

Over the summer Mr Jean-Claude Trichet, governor of the Bank of France and head of the state regulatory Banking Commission, called for "an end to the competitive distortions" of the market.

He expressed concern that the non-commercial banking sector in France – which also includes mutual banks and the post office and controls 42 per cent of the French market – does not share the commercial banks' need to be profitable or to achieve the rates of return on capital required by shareholders.

The Caisse d'Epargne has begun to respond to the criticisms, announcing last month that it was discussing a change in its legal statutes which would allow it to accept outside investors.

Earlier this year, it also expressed its commitment to distribute 10 per cent of its profits each year as a "social dividend" to community causes, while stressing it had no intention of becoming a commercial bank.

In 1995, it reported just FFr1.6bn ($316m) in profits on total shareholders' funds of FFr62.1bn.

Jury still out on help for small shops

Less than a year after the French government outlined a package of proposals to help its struggling small business sector, Mr Jean-Pierre Raffarin, the minister responsible, estimates that implementation is 90 per cent complete.

The electoral importance of small businesses to the country's ruling centre-right coalition was underlined by the fact that it was Mr Alain Juppé, the prime minister, who unveiled the package in Bordeaux last November.

There seems little doubt about the government's energy in this area, but it is still early to tell whether the measures will bring real benefits. Objective assessment is not helped by the close links with the government that many small business groups have.

The most recent figures on French small business failure are far from promising. During the first half of 1996, 34,000 collapsed, threatening a full-year total equalling the record 68,000 in 1993. The failure rate is one of the highest in Europe.

Among promises already translated into projects, small companies will benefit from:

■ Corporation tax on profits reinvested of 19 per cent, instead of 33.3 per cent.

■ Cuts in operating costs, including discounts on electricity and gas bills from the state monopoly provider.

■ A new system of low-interest loans for artisans.

■ Public sector contracts divided into smaller blocks to help small companies compete.

■ A new bank to provide long-term finance and state guarantees.

Probably the most radical series of measures has been those designed to help small shops. A new law freezes new shopping centre developments which exceed 300 sq m and future proposals will be subjected to tougher scrutiny to address criticism that hypermarkets exploit suppliers and undercut smaller retailers.

Mr Raffarin says there will shortly be judgments on a series of test cases against supermarkets breaking a new law against selling products at a loss.

Mr Raffarin says business has responded positively to his measures, though many have not yet been fully effective because of the depressed state of the economy.

He stresses the importance of remaining projects: a programme of support for business creation to be launched soon; reforms to the bankruptcy courts; and help for town centres against intensifying competition from out-of-town development.

Perhaps most significantly, he highlights tensions between small businesses and their banks. He hopes to launch a charter in the next few weeks to stress "rights and duties on both sides" and persuade banks not to demand security on loans against the home of the business's owner.

He says companies often show lack of loyalty towards banks and they are not "transparent" enough in the information they provide. He accuses banks of abusing their power, removing discretion from local managers, and failing to cope with unexpected changes such as a slowdown in corporate growth which can lead to a "brutal" withdrawal of credit.

Mr Raffarin also concedes that one of the main problems for the sector is the businesses themselves.

"If mortality is high, it is often because of the lack of skills of the founder or the quality of the project," he concedes.

Andrew Jack

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Finns aim to pass Emu tests

By Greg McIvor in Stockholm

Finland's Social Democrat-led five-party coalition yesterday underscored its determination to be a founding member of the single European currency by saying that it would balance its budget next year in an effort to meet Emu entry conditions.

Presenting its 1997 budget to parliament, the government said it had "good prospects" for fulfilling the Emu convergence criteria next year.

It said the "core budget" of state revenues excluding borrowing would balance state expenditure for the first time since 1990.

The finance bill envisaged budget spending of FM191bn ($43bn), a reduction of 5 per cent in real terms from last year's level. About FM5.5bn in income tax cuts aimed at stimulating spending and employment would be paid for by higher environmental taxes and cuts in transfers to local authorities.

The coalition, led by the Social Democratic party of Prime Minister Paavo Lipponen, has 145 of the 200 seats in parliament and is unlikely to encounter serious opposition to the key provisions of the budget, which is due to be ratified by December.

However the unity of the "rainbow" alliance, which includes the former communist Left Alliance, the Greens, the Swedish People's party and the Conservatives, could be strained by a proposal to cut the number of provincial government authorities from 11 to five.

The reform has been advocated on cost grounds, although it would cut annual spending by only FM50bn a year when fully implemented.

Many Finns have a nostalgic attachment to the existing regional structure, and the changes are fiercely opposed by MPs in the Swedish People's party and some Social Democrats, as well as by the opposition Centre party.

Ministers said the full package would pave the way for Finland to join the first batch of countries which will be founder members of the single currency next year.

Finland would meet all the key qualification conditions in the Maastricht Treaty apart from the level of public debt, which at 61.1 per cent of GDP would fall just outside the 60 per cent hurdle. But the government is confident the downwards trend in the figure will be sufficient to gain approval – a view shared by most analysts.

Mr Michael Finney, Finland analyst at Kleinwort Benson in London, said: "The government has made it very clear it wants to be in a position to join the first wave of Emu members."

Among the budget's measures are plans to alter benefit rules to encourage the unemployed to seek work – the country's unemployment rate is more than 18 per cent.

State debt servicing costs, the second largest budget item after social and health spending, would rise from FM29.3bn to FM31bn, the government said.

THE US HITS BACK: □ New oil sale doubts □ Western strategists kept guessing □ Clinton passes test

Saddam on the brink again

Has he miscalculated or is there a longer game plan? Edward Mortimer tries to work out the Iraqi leader's strategy

Once again, President Saddam Hussein is engaged in a game of brinkmanship with the US. Once again, the US has responded with air power. And once again, western strategists are kept guessing whether the Iraqi dictator underestimated his adversary's resolve, or whether the escalation is all part of his *game plan*.

There is nothing surprising or out of character about Mr Saddam's decision to exploit divisions between the west's Kurdish protégés by sending troops north into the so-called safe haven, as he did on Saturday. It was only when confronted by western ground troops, in April 1991, that he retreated from the area and allowed a semi-independent Kurdish entity to come into being there.

Since then he has repeatedly complained about the violation of Iraqi sovereignty that this involved.]

More discreetly, Mr Saddam has repeatedly put out feelers to both Kurdish factions. These clearly found an increasingly favourable reception from the Kurdistan Democratic party, especially after it lost an earlier round of fighting with its rival, the Patriotic Union of Kurdistan in 1994.

Sending his own troops and tanks to help the KDP capture Arbil was a clear violation of the western-proclaimed safe haven, and therefore a provocation to the US. But Mr Saddam may have thought that President Bill Clinton would not wish to get militarily involved in such a confused situation, especially as the new Islamist prime minister of Turkey, Mr Necmattin Erbakan, would be most reluctant to let Turkish air bases be used. Other US allies in the region, such as Egypt, Jordan and Saudi Arabia, would also oppose US armed intervention in Iraq's internal affairs.

Alternatively, Mr Saddam may have realised that Mr Clinton would have to respond militarily in order not to appear weak, but calculated that military strikes would turn to his political advantage, attracting condemnation throughout the Arab world and probably elsewhere. Either way, he stood to gain.

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To a certain extent these calculations have proved right. Only Kuwait among Arab states has supported the US action; and the fact that the US chose to strike at air defences in southern Iraq, rather than directly attack the forces that were infringing the safe haven in the north, suggests that indeed Turkey refused to allow its bases to be used. (The cruise missiles were fired from B52 bombers and US ships in international waters in the Gulf.)

France, Russia and China have all criticised the US action. So Mr Saddam may feel that on balance the operation has turned to his advantage, even if he now goes through the motions of withdrawing his own forces south of the 36th parallel, leaving Arbil in the hands of his new Kurdish allies.

This would not prevent him from moving against the main PUK stronghold of Sulaimaniya, which is south of the parallel, but any serious attack on this would surely bring further US retaliation and/or Iranian intervention to defend the PUK.

Some western intelligence sources expect Mr Saddam to up the ante further by trying to shoot down allied aircraft patrolling the newly extended no-fly zone, as his rhetoric suggests. Iraqi opposition leaders concur, some even suggesting he may again try to rouse Arab support by a missile attack on Israel, as he did during the Gulf war.

But Mr Jihad al-Khazen, editor of the leading Arab newspaper al-Hayat (published in London), believes the Iraqi leader has miscalculated, and will now lie low for a while – as he has done in the past after US air strikes. More than the no-fly zone, Mr al-Khazen believes, Mr Saddam will be frustrated by the suspension of the food-for-oil deal, on which he had been relying to assuage the misery and anger of the Iraqi people.

Seizure of Arbil easy, say experts

By James Blitz in London

Western intelligence sources believe the taking of Arbil was a comparatively straightforward operation for Mr Saddam Hussein's troops.

Located on the edge of the Kurdish enclave, it did not require the movement of Iraqi troops and munitions over a substantial stretch of territory.

It is understood the action was carried out by an elite Republican Guard division in the north, based at Al-Abed.

Intelligence sources believe the Iraqis have cleared out of the city – but that security troops are working there in conjunction with the Kurdistan Democratic party.

They now believe Mr Saddam has a number of options on how to respond to the US attack on the bases in the south of the country.

The first would be to try to take two more cities on the edge of the Kurdish enclave, Chamchamal and Sulaimaniya.

Chamchamal is regarded as an easy target for Mr Saddam. It routinely gets shelled by Iraqi forces and was captured in the Gulf war. It is located outside the northern no-fly zone, and could be taken swiftly by two brigades with support from fixed wing aircraft.

An attempt to progress further and take Sulaimaniya would be more problematic.

The city proved to be an "area of difficulty" for Mr Saddam in the 1980s, according to one western expert, who believed invading it would require rearming his troops and concentrating them more intensively.

A second main option would be to carry out his threat of disregarding the coalition-imposed no-fly zones, trying to bring down aircraft patrolling the region and to parade their pilots on television.

There are powerful logistical reasons for Mr Saddam to take this course. Yesterday's alteration of the southern zone brings two of his main air bases – at Al Kut and Shayka Mazhar – within its scope. These air bases have been the principal location for air defence operations south of Baghdad – and the coalition's move will raise concern about the implications for Iran's air defence.

Moreover, the shifting of the no-fly zone towards Baghdad brings it closer to a greater concentration of Mr Saddam's air defence assets. The Iraqi leader may believe he has a realistic chance of bringing down aircraft flying near the capital by covertly moving surface-to-air missiles into the no-fly area.

Western diplomats believe there could be other actions. With a substantial number of UN and western personnel in the region, Mr Saddam could attempt a replay of the "human shield" crisis. There are also fears of terrorist operations against some Arab states which have been hostile to Iraq.

Operation Desert Strike

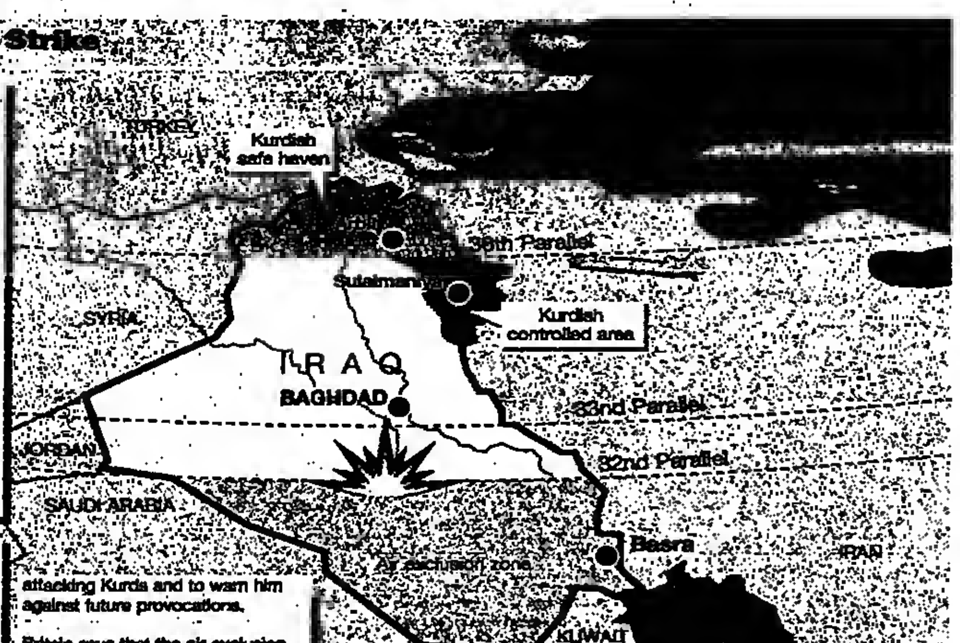
The build-up

Friday US puts Gulf forces on alert, saying three Iraqi tank divisions comprising 30,000 to 40,000 troops had crossed into the Kurdish safe haven.

Saturday Iraqi forces seize city of Arbil.

Sunday US warns of unspecific action if Iraqi troops do not withdraw from Arbil. UN delays agreement to allow Iraq to sell oil for food and medicine.

Monday US says there is evidence Iraqi forces are penetrating further into the Kurdish-controlled area in northern Iraq, threatening the town of Sulaimaniya. US and UK urge their nationals to leave Iraq.



The attack

Tuesday The US strikes in the early morning with 27 cruise missiles launched from its Gulf naval battlegroup and B-52 bombers flown from the Pacific Ocean island base of Guam. The targets are air defence and military command and communications facilities.

US president Bill Clinton says the attack was ordered to punish Iraqi president Saddam Hussein for attacking Kurds and to warn him against future provocations.

Britain says that the air exclusion zone barring Iraqi aircraft in southern Iraq, which it patrols along with US and French pilots, will be extended northwards from the 32nd Parallel to the 33rd.

Iraqi officials say their forces in the north are completing their withdrawal and denies Sulaimaniya is threatened. UN staff in Arbil say the city is calm and the Iraqis appear to have withdrawn.

President Saddam urges his forces to attack allied aircraft in the safe haven and exclusion zone. He says losses in the US attack are minimal and that a "great number" of missiles were shot down. Officials say five people were killed and 19 wounded, including civilians.

Mixed reaction in Arab capitals

By Our Foreign Staff

The Arab world's reaction to US cruise missile attacks on Iraq was mixed, with some countries saying the strikes violated Iraq's sovereignty and raised tension in the Middle East.

Most Gulf Arab states, including Washington's biggest regional ally Saudi Arabia, did not react officially, while Egypt and Jordan were concerned the action could spawn further violence, and Syria and Libya condemned the attacks.

Kuwait, invaded by Iraq in 1990, expressed "full understanding" with the attack. Kuwaitis were happy with the attack and said they wanted to see Iraqi President Saddam Hussein toppled.

Mr Amr Moussa, Egypt's foreign minister, said: "We are really disturbed and concerned about the situation in Iraq, and we hope the Iraqi people will be spared the rigours of the use of force."

The American attack put Arab leaders in a difficult position. They cannot openly support Mr Saddam's regime, but at the same time they cannot stay silent, for Arab popular opinion demands support for an Arab brother right or wrong.

Mr Esmat Abdel Meguid, secretary general of the Arab League, said the attack was "an infringement of an Arab country's sovereignty, and an interference in its internal affairs".

At the Arab summit in June, the Arab leaders opposed any policy or measure that affects Iraq's territorial integrity, or threatens its borders and national unity.

Syria's foreign ministry said yesterday the attacks constituted a threat to the unity of Iraq and its regional safety and increased the suffering of the Iraqi people.

Mr Shafic Gabr, president of the Egyptian-American Chamber of Commerce, said the US strikes "played into the hands of extremists who wish to derail the Middle East peace process", and warned that "the lack of movement in the peace process is going to create more dislocations in other parts of the region."

Palestinian leaders deemed the American action "unnecessary aggression" which could undermine the Middle East peace process.

Other Palestinian officials expressed concern that the US action against Iraq – and its virtual silence on the Israeli decision to expand Jewish settlements in the West Bank – would undermine the American role as a sponsor of the peace process.

Israel said it was closely monitoring events and issued messages of calm to its citizens.

Nevertheless the action conjured memories of the Gulf war when Scud missile attacks made Israelis huddle in sealed rooms with gas masks, fearing a chemical attack.

Some Israelis queued at distribution centres anyway, renewing gas masks or obtaining ones for children who were born after the Gulf war.

Allies divided over future of UN oil-for-food resolution

By Robert Corzine in London

A confrontation could be looming between the US and some of its allies over the long-term future of United Nations resolution 986, the now-suspended humanitarian measure which authorised $2bn in Iraqi oil sales every six months to fund the purchase of food and medicines.

Last weekend, Mr Boutros Boutros Ghali, UN secretary-general, froze temporarily the oil-for-food plan because the Iraqi incursion into the Kurdish safe havens made it impossible to guarantee the safety of UN monitors due to be based in the region.

Security Council members are expected to ask Mr Boutros Ghali to report back about the impact of the incursion on the implementation of the resolution.

But US officials believe the plan cannot now be implemented even if the safety of UN monitors in the Kurdish region can eventually be guaranteed.

The US yesterday began setting the scene for a possible diplomatic confrontation. President Bill Clinton said implementation of the resolution could not proceed under current circumstances. US officials at the UN later indicated that they wanted changes in the limited oil sales plan agreed by Iraq and the UN.

"It's a matter of going back to the MOU [memorandum of understanding] and looking at it," said Mr Edward Gnehm, a US envoy to the UN. "It was a designed programme and those conditions do not exist any more."

But other officials indicated privately that changes would not be sufficient. They said Washington had concluded that the concept of a humanitarian oil-for-food aid programme was fatally flawed as long as President Saddam Hussein was in power and appeared intent on "testing the UN will at every turning".

US officials said it was hard to envisage how there could be a "fair and equitable" distribution of aid in the Kurdish areas even if Iraqi forces withdrew.

They admitted, however, that it might be "extremely difficult" to persuade other Security Council members and some key allies, such as Turkey, to accept that argument. "There was a lot of momentum behind 986," conceded one official.

Resolution 986 is a "stand alone" humanitarian measure that was promoted heavily by a number of Security Council members, including Russia and France. Over the past year many governments, including some Gulf states such as Saudi Arabia, have expressed concerns that sanctions were having little impact on the Iraq's rulers, while putting increasing pressure on the civilian population.

Meanwhile, oil prices rose sharply yesterday as traders adjusted to the prospect that Iraqi oil will not be a factor in the market. The price of the benchmark Brent Blend for October delivery opened at $22.50 a barrel in London yesterday, 51 cents up on its close on Monday evening.

It hit a high for the day of $22.85 a barrel, before falling back to close in London trading at $21.935.

Favourite villain returns to stage

By Jurek Martin in Washington

President Saddam Hussein of Iraq has been America's favourite villain ever since he ordered the invasion of Kuwait in August 1990, prompting the Gulf war which evicted his army nearly six months later.

The victory of the international force, assembled and led by the US, did not, contrary to many expectations in the triumphal aftermath, propel President George Bush into a second term in the White House.

Mr Saddam's survival in power, however, has remained a constant irritant to President Bill Clinton's foreign policy and an intermittent source of tension between the US and its allies, in the Middle East and elsewhere, as witnessed yet again by the varied reactions from major capitals to yesterday's US missile strikes against Iraqi military installations.

But it is not immediately easy to see how Iraq's latest provocation – and the US response to it – can change the shape of a presidential election campaign that has been tilting heavily in Mr Clinton's direction.

A foreign policy election "surprise" was always possible, though Bosnia or perhaps Cuba had appeared more obvious potential problems for Mr Clinton. But with his substantial lead in the polls and with the US public more focused on domestic affairs, there had not appeared the need for the president to engineer some crisis. He merely needed not to funk any test that did emerge.

Still, the Iraqi military incursion into Arbil had given Mr Bob Dole, the Republican candidate, an immediate axe to grind. He had charged that President Saddam had been, in effect, encouraged by what he has called Mr Clinton's weak and ineffective leadership: specifically by agreeing to the UN resolution allowing, under strict conditions, the resumption of some Iraqi oil sales. But Mr Dole temporarily backed away from these allegations yesterday, issuing a carefully worded statement expressing support for the US servicemen engaged, albeit from a distance, against Iraq.

The White House had helped force his hand by suggesting over the weekend that it was he who might encourage President Saddam by giving the appearance of deep disagreement in the US over how best to respond.

Mr Leon Panetta, the president's chief of staff, commented that "we should speak with one voice", implicitly recalling Mr Dole's longstanding support of a bipartisan foreign policy that has included not seeking to block the presence of more than 20,000 US troops in Bosnia.

Some of Mr Dole's foreign policy advisers may return to the question of US policy once the missile dust has settled, by charging that the Clinton administration had neglected opportunities to negotiate between the two principal Kurdish factions, one now lined up with Iraq, the other with Iran.

But it is hard to imagine such arguments carrying much weight with an electorate with no reason to be interested in obscure Kurdish schisms but only too familiar with President Saddam's record, not merely in the region but in his presumed sponsorship of terrorism against the US.

At a very minimal level, Mr Dole's arguments may have rendered more inevitable a firm response from Mr Clinton. But that was likely in almost any event, given the necessity for any incumbent president to appear stalwart in the face of external provocation from the likes of a President Saddam.

Regional experts, such as Professor Fouad Ajami of Johns Hopkins University, also point out that the Iraqi leader has consistently misread and mis-calculated US opinions and reactions – and would appear to have done so again.

It is probably also too early to assess the longer-term impact of US policy in the Middle East. The adverse public reactions of President Hosni Mubarak of Egypt and King Hussein of Jordan were probably to be expected, given that both initially preferred a negotiated, as opposed to military, solution to the invasion of Kuwait.

Saudi Arabia, however, did not dissent, following a visit from General John Shalikashvili, head of the US joint chiefs of staff. Nor, publicly, did Turkey, whose new Islamic government appears intent on a rapprochement with Iran.

Other threads of the Middle East peace process had been stretched taut by the Israeli elections earlier this summer. But some guarded hopes have been raised by the apparently imminent meeting between Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yasir Arafat, president of the Palestinian Authority.

INTERNATIONAL NEWS DIGEST

US strength in manufacturing

A higher than expected rise in the closely watched US Purchasing Managers' Index helped depress stocks and bonds in early trading yesterday. The index rose to 52.6 per cent in August, the third consecutive increase, and it was thought that this signal of strength in the manufacturing sector might push the Federal Reserve to raise interest rates later this month.

The Conference Board's Index of Leading Economic Indicators, which was also released yesterday, rose 0.2 per cent in July to hit a record high of 103.1. But the increase – for the sixth consecutive month – was seen as indicating the kind of moderate growth economists have been expecting in the second half.

Most economists expect the Federal Reserve to increase interest rates when its Open Market Committee meets on September 24, particularly if employment figures due on Friday show continue growth. However, there is still no clear evidence of inflation. Basic commodity prices rose in July, according to the Index of Leading Indicators. But another price index, compiled by the purchasing managers for August, reported that for the third month in a row, prices remained under 50, which is considered a sign that inflation is under control. *Nancy Dunne, Washington*

Businessmen to meet Arafat

Twenty of Israel's top business executives are to meet Mr Yassir Arafat, president of the Palestinian Authority, to foster financial ties and bolster economic conditions in the Palestinian self-rule areas in the West Bank and Gaza Strip. Mr Benjamin Gaon, president of Koor Industries, Israel's largest holding company, said yesterday he would discuss establishing economic links between Israeli enterprises and the self-rule areas. He said he had initiated the meeting, to be held September 18, "in order to cement the peace process, and due to the fact that we are next-door neighbours".

The announcement put an ever stronger emphasis on the reluctance of Mr Benjamin Netanyahu, the Israeli prime minister, to meet Mr Arafat.

Palestinian officials say that Israel's closure of the the West Bank and Gaza had had a devastating effect on their economy, and that there have not been enough joint ventures that would help sell the peace agreement by raising living standards. About 35,000 workers are now allowed into Israel, but the Palestinian Authority wants more permits to be issued.

Mr Gaon, a leading figure in the Israeli business community, had in May elections supported Mr Shimon Peres, the dovish former prime minister, saying he was the best choice for Middle East peace and prosperity. But Mr Gaon said the planned meeting with Mr Arafat was not "politically motivated" and was aimed only at achieving closer economic ties. *Ilene Prusher, Jerusalem*

Zapatistas quit peace talks

Zapatista rebels in southern Mexico have broken off peace talks with the government of President Ernesto Zedillo to demand the release of 20 captured guerrillas. The suspension of talks, which were due to resume today, comes less than a week after a new guerrilla group launched a series of co-ordinated attacks across central and southern Mexico.

Government officials expressed surprise at the sudden withdrawal of Zapatista goodwill after almost 18 months of talks, and suggested the protest was timed to extract new concessions from a beleaguered government. Mr Marco Antonio Bernal, chief government negotiator, said there had been no change in Chiapas to justify the suspension of talks.

Subcomandante Marcos, the Zapatista leader, said in a statement his rebel movement, which took up arms in January 1994, would boycott talks until guerrillas who had been captured last year were freed. He said the Zapatistas had no connection with the Popular Revolutionary Army (EPR), the group which made its violent debut last week. *Leslie Crawford, Mexico City*

West Coast airline grounded

The US Federal Aviation Administration has grounded Rich International Airways, saying the US charter airline did not meet federal standards for training and maintenance of equipment. The order followed an inspection last week, prompted by allegations of problems with flight crew training and maintenance. The FAA said some records were incomplete, and other records showed that the crew of the Miami-based company did not have proper training. There were also questions about the airline's technical ability to monitor day-to-day operations.

The carrier operates many of its flights from Los Angeles and other West Coast cities to Hawaii. It mainly carries passengers, though it was certified for cargo as well.

This is FAA's second action against the airline this summer. In June, the FAA proposed $2.6m in civil penalties against Rich for maintenance violations. The airline said the action was "unwarranted and unfounded", and no decision had been reached. *AP, Washington*

Argentina in US rights case

The Argentine government is facing human rights charges in a US court for the first time. The ground-breaking legal action is being taken by Mr Jose Siderman, an 85-year old retired Argentine businessman living in Santa Monica, California. Mr Siderman alleges he was arrested, tortured and forced to leave Argentina in 1976 and that personal and business property worth $26m was later stolen by the military government that seized power in March that year.

The case comes as a senior navy officer was forced into early retirement this week for his part in the human rights abuse during the 1970s. Captain Alfredo Astiz, who was dubbed the "Angel of Death" for his notorious cruelty to political prisoners, is accused of the murder of two French nuns in Buenos Aires in 1977. He was forced out of the navy after the Senate last year barred him from further promotion, citing his human rights record.

A French court sentenced him in absentia to life imprisonment in 1990 for his alleged involvement in the disappearance of nuns Alice Domon and Leonie Duquet. He has also been accused of the 1977 kidnapping and shooting of a young Swedish woman.

A 1987 Argentine law suspended trials of military and police officers accused of human rights abuse during the 1976-83 military dictatorship. Over 9,000 people are thought to have died during the so-called Dirty War against the regime's opponents. *Matthew Doman, Buenos Aires*

Doctors' income falls in US

The average US doctor's pay fell in 1994 by nearly 4 per cent to $187,000, the first time earnings had fallen since income statistics were first collected in 1982. The journal Health Affairs said the drop in 1994 – the last year for which figures were compiled – from the 1993 average "may be the first evidence that managed care has had a widespread effect on physicians' earnings in particular and health spending in general". Under managed care people buy a healthcare package rather than paying for individual treatments.

Project Hope, the health education organisation that publishes the journal, said the pay decline suggested managed care was reducing patient access to physician services. Other factors were a shift toward group practice and changes in Medicare reimbursements, the report said. Until 1994, average doctor income had risen nearly 6 per cent a year. *Reuter, Washington*

NEWS: ASIA-PACIFIC

Moody's in downgrade of Thai debt

By Ted Bardacke in Bangkok

Moody's, the US credit-rating agency, downgraded Thailand's short-term sovereign debt ratings yesterday, saying the country was increasingly vulnerable to "financial shock" because of "rapid and recent accumulation of short-term external debt".

The ratings downgrade, to Prime-2 from Prime-1, applies to Thailand's short-term sovereign debt as well as to the bank deposits and other short-term obligations of three of the country's four biggest commercial banks – Bangkok Bank, Thai Farmers' Bank and Siam Commercial Bank.

Countries and institutions with a Prime-2 rating still "have a strong ability for repayment of senior short-term obligations", Moody's said. But Thailand's recent bout of financial instability, when the baht came under speculative attack, coupled with slowing export growth and a fractious political system, might have negative implications for Thailand's long-term foreign currency debt ratings.

The government of Prime Minister Banharn Silpa-archa faces a parliamentary vote of confidence later this month. A defeat could lead to a general election.

Moody's said financial liberalisation, coupled with a rigid exchange rate mechanism, had led to a jump in short-term borrowings.

Thailand's central bank countered Moody's claims in a report released yesterday. It said short-term external debt of $41.1bn at the end of 1995 – a 40.7 per cent increase from a year ago – was lower than the country's foreign reserves and foreign assets of commercial banks, which totalled $49.7bn at the end of last March.

Only $22.8bn of the banking sector's short-term debt, or 55 per cent of Thailand's short-term debt, was "susceptible" to risk in the case of sudden capital outflows.

The rest of the debt categorised as short-term was inter-office funding from overseas branches of commercial banks and parent institutions of Bangkok International Banking Facilities (BIBF), which have offices in Thailand and lend in foreign currency but cannot raise funds domestically.

Rules instituted last June, partly in response to Moody's warning of a ratings downgrade, had caused 92 per cent of new BIBF loans to have a maturity of more than one year.

While the banking sector was taking on risk by funding itself with short-term loans and lending out for longer maturities, more than 80 per cent of the lending was to productive or "non-speculative" sectors.

Some economists fear as Thailand goes through economic diversification, even some productive investments may not pay off in economic or export growth.

Thailand's short-term external debt ($bn)

	1991	1992	1993	1994	1995
Total short-term debt	15.4	18.9	[illegible]	29.2	41.1
Banks	4.1	5.5	10.4	21.5	33.7
Commercial banks	4.1	5.5	4.0	6.4	10.0
Bangkok International Banking Facilities	-	-	6.4	15.1	23.7
Public	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Non-bank	10.5	12.8	12.3	7.4	7.3

Source: Bank of Thailand

Ruling coalition heads for Y3,000bn emergency spending programme

Tokyo plans package to lift growth

By William Dawkins in Tokyo

Leaders of Japan's coalition government yesterday agreed to produce within the next few weeks an emergency spending plan, expected to be worth at least Y3,000bn ($27.8bn), in an effort to prevent the economy from slipping back into stagnation.

The three-party alliance is to wait until after publication of the gross domestic product figure for the second quarter to June, due in the middle of this month, before confirming details of the widely expected package, the first in 12 months.

Pressure on Mr Ryutaro Hashimoto, the prime minister, is growing from his own Liberal Democratic party to deliver a robust fiscal stimulus before the government faces a general election, due by next July. Such LDP demands have built up over the past week, since a survey of business confidence by the Bank of Japan late last month threw doubt on the recovery.

The consensus among Tokyo economists is that GDP shrank at the rate of 3.5 per cent a year in the second quarter, a sharp correction from the officially reported – and sceptically viewed – growth of 12.7 per cent of the first quarter.

Echoing this anxiety, Mr Eiichi Nakao, construction minister, yesterday said a Y4,000bn package was needed to prevent the economy from losing momentum in the second half of the year.

A second budget would be needed even without this latest reminder of the economy's fragility, argue many economists. This is because underlying state spending is set to shrink next year, despite the finance ministry's outline plan for a 3.5 per cent rise in the fiscal year from March 1997.

The growing pile of state debt, a legacy of previous fiscal packages, means more than a fifth of that will go on interest payments. Spending on physical projects would decline by between 1 per cent and 1.5 per cent, estimates Mr Jesper Koll, head of economic research at JP Morgan in Tokyo. "With public investment switching from engine to drag, the aim is to smooth the transition," he said.

Worse, according to a recent survey by the Ministry of International Trade and Industry, there has been a shift in spending away from technology projects, with wide spin-off benefits, and towards simple construction projects which generate limited wealth. Miti estimates that the multiplier effect of such packages has fallen from 1.8 to 1.1 over the past three years.

Just as Mr Hashimoto has come under pressure for a generous supplementary budget, a growing number of younger LDP politicians are starting to call on him to delay an increase in sales tax, from 3 per cent to 5 per cent, scheduled for next April. Political experts think he will go ahead with the sales tax rise regardless, sensitive to finance ministry exhortations to curb outstanding state debt, now almost 90 per cent of GDP.

● Chinese Premier Li Peng yesterday reasserted China's disenchantment with what it sees as a resurgence of Japanese militarism and told former prime minister Noboru Takeshita that a "correct handling of history" remains the basis of Sino-Japanese relations, Kyodo reports from Tokyo.

Chief justice joins contest for top HK job

By John Ridding in Hong Kong

Sir Ti Liang Yang, Hong Kong's chief justice, yesterday said he would run for the post of chief executive, intensifying competition for the territory's top job after the handover to China on July 1 next year.

The Hong Kong government said a decision would be taken on Sir Ti Liang's tenure as chief justice when his nomination was formally endorsed. But after confirming his intention to run, in a letter to the judiciary, he is expected to step down shortly.

With nominations for the post set to close in the middle of this month, and the selection of the chief executive due by the end of November, Sir Ti Liang's entry has given a surprise twist to the contest.

Mr Tung Chee-hwa, the shipping tycoon, is regarded as the frontrunner. But Mr Tung has yet to declare his candidacy, and his low profile is fuelling questions about his intention to stand. One scenario is that Sir Ti Liang will receive the backing of Mr Lo Tak-shing, a solicitor who is also seeking the post and is close to Beijing, but who lacks Hong Kong support. Should Sir Ti Liang succeed, Mr Lo could be rewarded with a senior position.

The chief executive will be chosen by a 400-member selection committee, now being formed by a Beijing-appointed body. The most popular choice in Hong Kong is Mrs Anson Chan, the head of the civil service, but her ties to the British-backed administration reduce her chances.

Sir Ti Liang is seen as a possible compromise candidate, benefiting from his lack of business connections. His candidacy may prove attractive to Beijing by offering a collective leadership or a provisional chief executive. "He would not be a forceful leader, so he might satisfy the various factions," said one political commentator.

Critics suggest, however, that Sir Ti Liang's lack of business experience will count against him. The chief justice was also involved in controversy last year, when a Chinese official claimed he criticised the territory's Bill of Rights.

Pro-democracy politicians in Hong Kong argue that his candidacy is designed to give the appearance of a contest ahead of Mr Tung's selection by Beijing.

Appointed in 1988, Sir Ti Liang was Hong Kong's first Chinese chief justice. Originally from Shanghai, the 67-year-old lawyer studied in London, and has served as a judge in Hong Kong for 30 years.

Sir Ti Liang: seen as possible compromise candidate Reuter

Singapore looks to superhighway

By James Kynge in Kuala Lumpur

Singapore took another step toward its vision of becoming an "intelligent island" yesterday, announcing an initiative to link the city-state's main on-line networks.

Mr Goh Chee Wee, Singapore's minister of state for communications, said the "internetwork hub" would link service providers of the Internet, government on-line networks, commercial networks and some others.

Singapore's move follows an ambitious scheme announced by neighbour Malaysia last month to launch an "information superhighway" designed to attract the world's leading information technology companies to Kuala Lumpur.

The perceived advantage in Singapore's initiative is that users will be able to access all networks using a single leased line, rather than the separate lines currently necessary.

The hub will use a single set of national standards, meaning inter-operability between networks becomes easier.

Mr Goh said the hub should be up and running by the end of the year. A mechanism to identify users electronically would be incorporated into the hub network next year, paving the way for secure operations such as payments, banking and confidential correspondence.

The move is part of the Information Technology 2000 masterplan, a scheme which aims to accomplish the sometimes conflicting aims of exploiting the information superhighway to its full potential while continuing to insulate Singaporeans from undesired influences.

From September 15, the city-state will implement its first big attempt to police cyberspace. From then all Internet providers must channel more than 120,000 subscribers on the island through "proxy servers" before they reach the net.

These servers will check every Internet site a subscriber requests and block access to a about a dozen banned sites known to display pornography. The government has warned against material deemed politically subversive or inciting religious disharmony.

NEWS: WORLD TRADE

US tries to bring Europe on side over Cuba

Clinton's envoy sets out terms for continued waiver of Helms-Burton act

By Lionel Barber in Brussels and Guy de Jonquières in London

President Bill Clinton's willingness to continue waiving its controversial anti-Cuba legislation will depend on Europe backing measures which Washington says are aimed at bringing democracy and a market economy to the island.

Mr Stuart Eizenstat, the special US envoy on Cuba, made this clear yesterday, when he opened a diplomatic offensive in Europe aimed at defusing the row over the US Helms-Burton act, which is intended to penalise foreign companies "trafficking" in assets confiscated by the Castro regime.

He presented a list of measures to the European Commission, which he said would speed Cuba's transition to a democratic, market-oriented economy. However, EU officials said that while some of the proposals appeared largely uncontentious, others were likely to arouse opposition.

Mr Eizenstat offered no concessions on the Helms-Burton law, which President Clinton partially waived in July by deferring for six months the date from which private actions may be brought in US courts seeking damages against foreign companies targeted by the legislation.

Renewal of the partial waiver, which expires in mid-January, would depend on European support for the US package of proposals, Mr Eizenstat said.

The Helms Burton law – along with similar US legislation aimed at foreign investors in Iran and Libya – has provoked outrage in Europe, which objects to its extra-territorial scope.

The Commission is drawing up countermeasures making it illegal for companies to comply with Helms-Burton. These are due to be considered next month by the Council of Ministers which will also discuss how to respond to Mr Eizenstat's initiative.

EU officials said member governments were likely to resist two of the proposals in particular. These were:

● A US demand that no foreign technical aid be given to Cuba to complete a Russian-designed nuclear power station. The Europeans are likely to argue that it is better, on safety grounds, to complete the project using western technical expertise.

● The US is pressing for an international code of conduct laying down restrictions on exports to Cuba, along the lines of the so-called Sullivan principles applied to trade with South Africa in the 1980s.

Britain has strong reservations, having opposed an earlier US attempt to apply similar constraints on US companies investing in Northern Ireland.

Other proposals outlined by Mr Eizenstat in Brussels yesterday – such as promoting democracy in Cuba and channelling humanitarian aid through non-governmental organisations rather than the Castro regime – are likely to be uncontentious.

Mr Eizenstat, a former ambassador to the EU, stressed that the proposed code would be voluntary and "self enforcing". He also offered a vigorous defence of the Helms-Burton law. "This is a targeted piece of legislation. It is not a blunderbuss or meat axe."

Stuart Eizenstat: diplomatic offensive AP

Investors shun gas projects in Russia

By Frances Williams in Geneva

Meagre foreign investment in the gas industry in Russia and central Asia is holding back the region's huge potential as a producer and exporter, according to the United Nations Economic Commission for Europe.

Russia possesses a third of the world's natural gas reserves, produces a third of global output and accounts for nearly 40 per cent of gas exports, the ECE notes. Countries around the Caspian Sea, notably Turkmenistan, also have considerable but under-exploited reserves.

Though gas consumption in the region has fallen steeply since the collapse of communism in 1989 and the sharp recession that followed, Russia and eastern European nations remain the world's biggest gas market and demand is expected to rebound to previous levels during the next decade or so.

The region is also expected to reinforce its role as the leading gas exporter, with growing markets in both Europe and Asia. However, the growth of gas output will require steady development of gas infrastructure and large amounts of capital to finance new production, regional transit, storage and interconnection projects.

For instance, the Yamal-Europe project, linking the gas-rich Yamal peninsula, in Russia, to Europe through Belarus and Poland, involves an estimated investment of $36bn.

Compared with the capital needs, the foreign input has been paltry. Hungery received the biggest sum – more than $2bn – when it privatised the gas industry last year. Elsewhere, foreign interest has been largely limited to acquisitions by Gazprom, Russia's state monopoly, of natural gas assets in neighbouring countries.

The ECE says low foreign direct investment partly reflects the incomplete state of market reforms and perceptions of high risk by foreign investors.

Airbus unveils $3bn in orders

By Michael Skapinker and Bernard Gray

Airbus Industrie, the European aircraft consortium, yesterday announced orders worth $3bn at the Farnborough Air Show. It also rejected a claim by Boeing of the US that it would be financial suicide to build a 550-seat super jumbo airliner.

Airbus said Asiana Airlines of South Korea had ordered 18 single-aisle A321s, Federal Express, the US freight company, was buying 11 A300-600 freighters, and Cathay Pacific, the Hong Kong-based carrier, had ordered three A340-300s.

Boeing announced yesterday that it had sold $6.3bn worth of aircraft.

Mr John Leahy, Airbus head of sales and marketing, said the consortium was confident it could build its 550-seat A3XX for $8bn or less. Boeing had maintained earlier this week that it would cost Airbus $12bn-$15bn. The US manufacturer is building a stretched 550-seat version of its 747-400, which it says will cost $5bn to develop.

Mr Leahy said Airbus was examining the economics of the project, and would only proceed if it appeared viable.

"We are happy that Boeing is updating its 34-year-old 747 design and that it will come to the market first," said Mr Leahy. "This will give us time to fine-tune the specification of our all-new 3XX."

He said that Airbus was interested in a discussion with British Airways, which would be an important customer for a very large aircraft.

Mr Robert Ayling, BA's chief executive, confirmed yesterday that his airline would need aircraft with up to 600 seats by the end of the century. He said BA was already talking to Boeing about larger aircraft and would also be interested in Airbus's proposals.

● Bombardier, the Canadian manufacturer, said it would begin offering airlines its planned 70-seat regional jet. It expects to make a final decision to produce the aircraft by the end of the year. Bombardier has said some of the work will be done by Short Brothers, its Northern Ireland subsidiary. Shorts lost 700 jobs after the collapse of Fokker of the Netherlands, to which it was a supplier.

Ramos orders rebid on Subic deal

By Edward Luce in Manila

President Fidel Ramos yesterday ordered officials at Subic Bay, the Philippines' largest duty-free zone, to scrap a decision to give the contract to run its container terminal to a subsidiary of Hong Kong-based Hutchison Whampoa.

The award, made last month to Hutchison Ports Philippines, was immediately contested by the rival bidder, International Container Terminal Services Inc (ICTSI), a Philippines company. Mr Ramos said the Philippines would have lost up to $200m a year in revenue as a result of the difference in price between the two bids.

ICTSI, whose bid was more than double Hutchison's, was disqualified on the basis of a previously unknown anti-trust rule. This specified that a majority-holder of a Philippine port could not control more than 20 per cent of a rival port. The company, which owns Manila's largest container terminal, is the country's biggest port operator.

Mr Ramos, who ordered that the contract be submitted for a second round of bidding, said that the anti-trust rule should be disregarded and a decision made on strictly financial grounds. A legal adviser, Mr Renato Cayetano, said the president wanted the matter resolved quickly.

A spokesman for Hutchison, which will re-submit its original bid, said Subic officials should look at the financial package as a whole and not just at the basic fee. He maintained that Hutchison's offer, which included a $180m investment to upgrade Subic port and build a second wharf, would lead to a rapid increase in volume over the 25-year contract.

Mr John Meredith, Hutchison Port Holdings' managing director, said in Manila yesterday: "You've got to look at the totality of what is on the table. We are very impressed with the Subic Bay Metropolitan Authority. They are correct, efficient and graft-free."

Mr Richard Gordon, chairman of Subic Bay, the Philippines' fastest growing free-trade zone, said that the freeport reserved the right to choose the second highest bidder if negotiations with the first proved unfruitful. Subic has been told to re-evaluate the bids within 15 days.

Uzbekistan seeks telecoms partners

By Sander Thoenes in Tashkent

Uzbekistan is inviting western companies to remodel and operate its local telephone networks but without offering international credits, government guarantees or free pricing.

Mr Anatoly Kudinov, communications ministry spokesman, said 19 companies had shown an interest in a 49 per cent stake in Tashkent's telephone operation. Fifteen had registered to bid on a Y12.7bn ($117m) contract, financed by Japan's Overseas Economic Co-operation Fund, to install digital switching stations, optic fibre lines and radio relay systems in four regions of the country.

Uzbekistan is rushing to upgrade and expand its decrepit telephone network, much of which dates from the 1920s. Only 7 per cent of households have a telephone. Even in the capital, callers have about a 10 per cent chance of getting through.

Daewoo of Korea and Siemens and Alcatel of Germany have already put in dozens of switching stations across the country, mostly on export credits. But Japan's credit is likely to be the last one guaranteed by the Uzbek government. Instead, Tashkent is urging telecoms companies to set up joint ventures to upgrade and operate the local telephone networks.

In Tashkent, the winner of the 49 per cent stake will hold it for 15 years and undertake to install enough digital stations to replace 350,000 lines and add another 150,000. The government telephone company Uzbektelekom will own the remaining 51 per cent but the venture will operate without a government guarantee. Similar ventures are planned for most large cities.

"We don't take risks – they take risks," Mr Kudinov said.

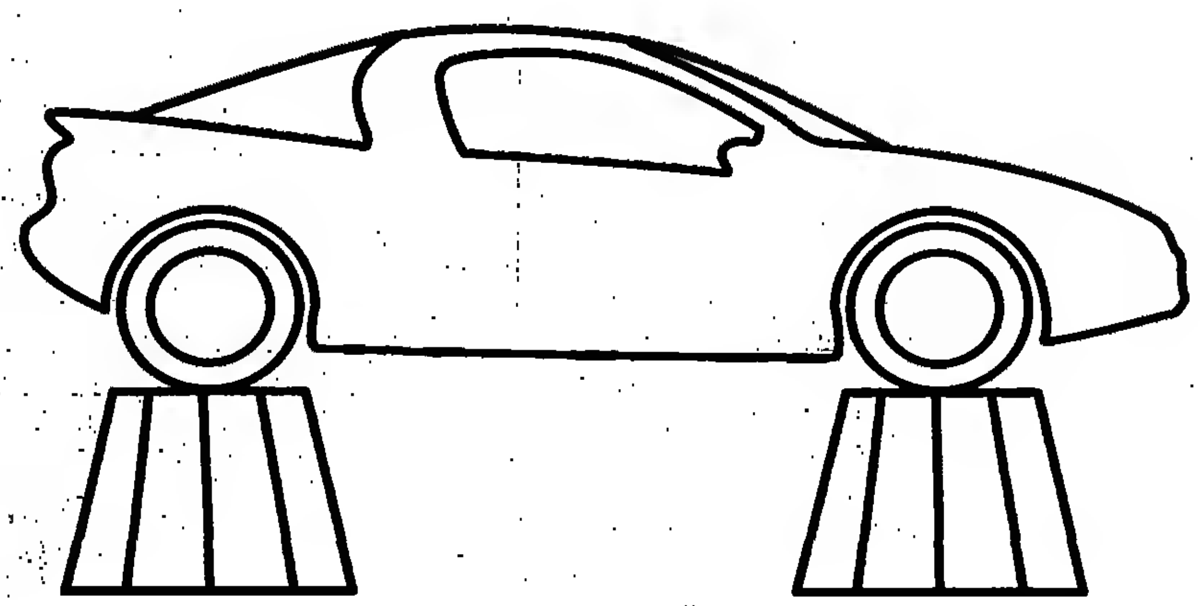
Western telecom experts in Tashkent predict that such ventures will find it difficult to turn a profit, however, because the citizens of Tashkent are used to free local phone calls and the government is unlikely to introduce market rates.

Only businesses are charged a significant fee but the most profitable business services, cellular and international calls, have been farmed out to separate ventures.

Nevertheless, Uzbekistan is negotiating joint ventures with five international companies in as many different towns.

"It's so splintered here," said Mr Duncan MacPhail, a government consultant under the European Union's Tacis aid programme. "We're not happy with it. It means that down the road they will have difficulty with training and supply. They are going to have spares problem. The more variations you have, the more teething problems you're going to have."

The Tigra tamed, 100,000 times.



Barely two years after introduction, there are well over 100,000 Opel Tigras on the road, in over 35 countries. And that is indeed something to purr about.

Especially when you consider that the Tigra's distinctive looks are miles away from the con entional styling which many regard as the key to automotive success. In fact, this compact coupe created a whole new, previously unexplored market.

This may seem like a daringly innovative move, but we have to admit that we were quite sure of ourselves. We stay in close touch with Opel drivers and dealers around the world, and we listen to what they say. Our engineers then have the flexibility to translate this wish-list into cars that go beyond the conventional. Cars that, like the Tigra, offer value, safety and driving enjoyment.

Being a successful car maker is, naturally, a very satisfying feeling. But we remember never to purr so loudly that we no longer hear our customers.

OPEL

US law firms lead in global deals

By Robert Rice, Legal Correspondent

Leading US law firms are well ahead of their City of London rivals in the highly competitive market for global equities work, according to a survey published yesterday.

Despite the hundreds of thousands of pounds spent by UK law firms in recent years on hiring top US securities lawyers to handle the US end of global offerings, the market continues to be dominated by US investment banks and law firms.

In Europe, regarded by the UK firms as their local market, the US firms lead the way in acting for both issuers and investment houses. The UK firms have fared better, however, in Asia and the emerging markets of eastern Europe and South Africa.

According to the survey by the International Financial Law Review, Davis Polk & Wardwell of New York was the leading adviser to investment houses on global offerings between June 1995 and June 1996, based on the number of issues done.

The US firm advised on 41 issues with a total value of $16.5bn. The UK's Linklaters & Paines was second, advising on 39 issues, 24 of which were in Asia, but the total value of the global deals acted on by US firms Shearman & Sterling, Sullivan & Cromwell and Skadden Arps Slate Meagher & Flom was considerably greater.

Of the leading legal advisers to issuers of international equity over the 12-month period, Clifford Chance was the only UK law firm to feature in the top 10.

The European privatisation programme in particular has been dominated by US firms. Davis Polk was active in Spain, handling the $1bn offering for Repsol, the Spanish oil and gas group, and the $1.2bn offering for Argentaria, the state banking group.

Skadden Arps advised on the October 1995 $1.3bn offering by the Spanish government in Telefonica, Sullivan & Cromwell advised the investment banks and Shearman & Sterling, another US firm, advised ENI on the $3.9bn privatisation of the Italian oil and gas company in November 1995.

In the UK, Clifford Chance scored a coup on May's $2.2bn British Energy flotation, when it became the first UK law firm to be appointed to handle the US side of a UK privatisation.

The pattern of US dominance is unlikely to change in privatisations due in the near future. As one UK law firm partner commented to the magazine, the biggest challenge for the UK firms lies in "trying to prise the big transactions from the US investment banks. They still look naturally to their US firms."

Lloyd's recovery nears approval

By Ralph Atkins, Insurance Correspondent

Lloyd's of London is likely to get the go-ahead today for the final stage of its recovery plan – the setting up of a reinsurance company, Equitas, to take over billions of dollars of outstanding liabilities on old insurance policies.

Full authorisation for Equitas by the British government's Department of Trade and Industry would mark the end of the insurance market's struggle to secure its financial future.

It may also signal the start of a change in the way Lloyd's raises capital. As Lloyd's completes its recovery plan, it has emerged that Mr John Charman, deputy chairman, is considering offering Names on a syndicate for which he is responsible about £60m to give up their places to corporate investors.

If successful, the deal could provide a model for other moves to persuade Names – the individuals whose assets have traditionally supported Lloyd's – to leave the market.

The decision on Equitas by Mr Anthony Nelson, the DTI minister with responsibility for Lloyd's, would follow the announcement last week by the insurance market that more than 90 per cent of its Names had accepted its £3.2bn ($4.99bn) settlement offer.

Last-minute details were still being finalised last night – and it is possible that an announcement will be delayed until tomorrow. *But the setting up of Equitas would allow many Names to "reinsure" commitments outstanding on policies sold before 1993, putting a value on previously unquantifiable liabilities.* Equitas would become one of the world's largest reinsurance companies.

Names, previously trapped on "open years" will then be able to sign a final cheque and leave the market.

Subdued rate level 'could be deceptive'

By Graham Bowley, Economics Staff

The chancellor of the exchequer and the governor of the Bank of England – the UK's central bank – will meet again today in the latest round of their fight against public enemy number one: inflation.

They will be reassured that the prospects for keeping the rate low look good, although Mr Eddie George, the Bank's governor, may point to some worrying signs such as Monday's jump in money supply growth. One of the main worries over high inflation is that since it tends to be more variable than low inflation it is more disruptive to economic decision making.

However, one of the bright aspects of the current economic upturn is how subdued inflation has been. After the inflationary binges of the 1970s and 1980s, this time, the optimists say, it may all be very different.

Mr David Owen, UK economist at Kleinwort Benson, emphasised the subdued conditions in the labour market. "The key driver of inflation in the UK, as in most developed economies, is unit labour costs, which are subdued."

The inflationary signs are also being away from the labour market. Manufacturers' input costs have declined as commodity prices have fallen. Partly as a result of this, producers' output price inflation has been the lowest for nearly 30 years.

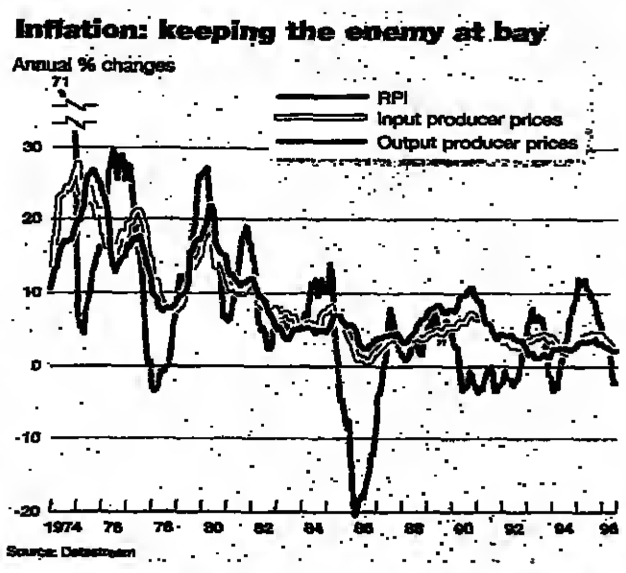
But although inflation is running at an annual rate of just 2.2 per cent and looks set to fall further for several months at least, the longer-term prospect is less rosy.

Mr David Hillier, UK economist at BZW, the investment arm of Barclays Bank, said: "In the short term, inflation is clearly going to head downwards but already there are signs that it will rise again in a year or so."

The economy is beginning to pick up speed, driven primarily by a rebound in consumer spending. Already, rising demand is beginning to affect retail prices. While goods retail price inflation has fallen steadily since the beginning of the year, inflation in services – which account for much consumer spending – has accelerated markedly. If retailers use the consumer rebound to raise margins further, Mr Kenneth Clarke, the chancellor, may find his inflation target seriously threatened.

The Bank of England itself has already warned that the government is now more likely than not to miss its target of 2.5 per cent inflation in two years' time. Public enemy number one may be cowed but it is not ready to succumb yet.

Inflation: keeping the enemy at bay



Source: Datastream

Manufacturers 'increasingly overseas-owned'

By Graham Bowley

One in three of Britain's 100 biggest manufacturers now has a non-British owner and businesses in other countries account for a quarter of the nation's manufacturing output, according to a study published today.

The study found that the number of non British-owned companies among the 100 biggest manufacturers in the UK almost doubled between 1986 and 1993. Large multinational companies from the European Union, especially France and Germany, are leading the charge into the UK since the removal of trade barriers in 1992.

These companies, because of their size, tend to have a large share of their market raising the threat that they could abuse their market power to increase prices, the study for the Economic and Social Research Council, said.

Mr Stephen Davies, professor of economics at the University of East Anglia and author of the report, said: "It is not just a question of producing here in the UK, these companies take a leading role in their industry." He said this meant "the circumstances are there for anti-competitive practices".

The study found a sharp rise in non-UK ownership of manufacturing since 1986 when about 18 per cent of manufacturing output was by non British-owned companies.

By 1993, the year for which the latest data is available, this proportion had risen to 25 per cent. During this period the number of non British-owned companies among the 100 largest manufacturers in the UK increased from 18 to 35.

By 1993 companies from the EU and from countries within the European Free Trade Association accounted for 39 per cent of the biggest non British-owned owned manufacturers, compared with 18 per cent in 1986.

Companies from North America accounted for 50 per cent of non British-owned businesses, unchanged from 1986. Meanwhile, Japanese and South Korean companies accounted for 7 per cent of leading non British-owned companies.

Fifteen of the top 100 manufacturers in the UK are European multinationals, such as Peugeot-Talbot, Philips, Shell and Michelin.

UK NEWS DIGEST

Defence homes sale attacked

A consortium led by Nomura, the Japanese securities house, is set to buy 58,000 homes owned by the British defence ministry and occupied by the families of military personnel.

Mr Michael Portillo, the defence secretary, yesterday selected the £1.6bn ($2.49bn) bid on the advice of NatWest Markets, the investment bank advising him on the controversial privatisation.

Mr Portillo was forced to press ahead in spite of opposition in the armed forces after the Treasury had threatened to cut military equipment budgets if the privatisation was scrapped. The Nomura-led consortium, known as Annington Homes, also includes Amec, the construction group, Hambros, the merchant bank, Midland Bank, Royal Bank of Scotland and Abbey National Treasury Services.

Mr David Clark, the opposition Labour party's senior defence spokesman, attacked the involvement of Hambros, which has given more than £300,000 to the Conservative party since 1992.

Simon London and David Wighton

■ AEROSPACE

Airport noise limits attacked

New government noise limits imposed on aircraft taking off from London's airports could damage the capital's pre-eminent position in world aviation, the International Air Transport Association has warned. The association, which represents airlines worldwide, said the new limits, announced last week, would create problems for airlines using the airports without improving the quality of life of people living nearby.

Michael Skapinker

■ BROADCASTING

Labour party proposes 14% tax

The opposition Labour party is considering introducing "a spectrum tax" on all broadcasters if it wins the next general election. The tax could be as high as 14 per cent of revenue. According to a senior Labour adviser, the plan now emerging, would bring all commercial broadcasters into the fold, particularly British Sky Broadcasting, the satellite venture.

Last month BSkyB, in which Mr Rupert Murdoch's News Corporation has a 40 per cent stake, revealed pre-tax profits of more than £250m ($390m) on turnover which is now over £1bn. BSkyB does not yet pay taxes because it still has significant tax losses flowing from the cost of setting up the expensive venture.

Raymond Snoddy

Lex, Page 10

■ PUBLISHING

Newspaper rescue plan announced

United News and Media yesterday unveiled ambitious plans to try to revive the Daily and Sunday Express newspapers – plans that involve a move to seven-day publishing, the resignation of the editor of the Sunday Express and the launch of new colour magazines. The restructuring which will involve the loss of 85 editorial jobs, has been modelled on the experience of US papers such as the Washington Post which publish seven days a week with a common staff.

Raymond Snoddy

Lex, Page 10

BUSINESS AND THE ENVIRONMENT

Telegraph Colour Library

Bataan nuclear power station: an example of the Philippines' conversion to learning from its environmental mistakes

After years of neglect, the Philippines is starting to protect its environment, writes **Edward Luce**

Green tiger

After years of turning a blind eye to pollution, the Philippines is finally getting tough about protecting its environment.

Later this month, two foreign mining executives are to appear in a Philippine court accused of breaking environmental laws. The charges – stemming from the leak earlier this year of toxic waste into the Boac river from a foreign-owned copper mill – carry a maximum 15-year prison sentence.

The damage to wildlife and the rise in sickness among local residents since the disaster made it inevitable that Marcopper – which, at the time, was 40 per cent owned by Placer Dome, a Canadian company – would be the target of punitive action.

Victor Ramos, who was appointed secretary of state for the environment a year ago, says the Marcopper case symbolises the government's new commitment to the environment. "Five or six years ago I doubt whether a case such as this would have resulted in criminal prosecution," he says. "The pollution caused by the mining industry in the 1980s went largely unchecked. In the late 1990s we want to signal that this has changed."

Ramos, who predicts the Philippines will become the first "green tiger" among Asia's economies, says the new standards extend beyond mining. Last month the environment department threw out an application for a $600m (£385m) cement plant near Manila despite its lure as one of the largest foreign investments in the country.

The plant, which had been proposed by Taiwan's Tuntex and Marubeni of Japan, would also have helped to redress the country's growing cement shortage. But government officials said tha volume of traffic would have damaged one of the few coral reefs to have survived Filipino fishermen's destructive habit of using dynamite to catch fish over the past 20 years.

"The rejection of the cement plant was done for good and transparent reasons," says Peter Wallace, head of AYC Consultants, which advises multinationals on how to invest in the Philippines. "There are plenty of other acceptable sites in the Philippines to locate cement plants."

Under the new rules, companies must draw up detailed environmental impact studies for government approval. Officials say the average waiting-time before the licences are awarded is six months. But some applications have been pending since 1993.

"The procedure is a little bureaucratic and there is scope for graft but in the final analysis the Philippines is heading in the right direction," says Henry Schumacher, president of the European chambers of commerce in Manila. "Our only worry is that multinational companies will be treated more strictly than local investors."

For example, Texas Instruments, the US semiconductor company which employs 2,000 workers at its Philippine plant, sends its toxic waste back to the US for disposal. But many of TI's local counterparts simply dump the toxic waste because of the lack of suitable hazardous-waste disposal plants in the Philippines. Environmental groups estimate that 230,000 tonnes of hazardous waste are generated in the Philippines eech year, of which only a fraction is shipped abroad.

Another concern is that local pressure groups appear to be succeeding in forcing the government to rewrite its 1995 mining code which was already considered exemplary by international standards. With the world's seventh-largest gold reserves and 10th-largest copper reserves, a growing number of foreign mining companies – at the last tally 69 – have applied for Philippine exploration licences. All but two of the licences remain stuck in government in-trays.

"We are worried that the new messures will discriminate against foreign mining companies," says Wallace. "Apart from the existing provisions, the government is planning to withhold mining licences from areas where other commercial activity is viable and intends to give a first preference to small mining concerns which are usually far more pollutive."

Government lawyers, however, say that the country's unusually vocal pressure groups – a rarity in south-east Asia – compel it to balance the commercial gains of foreign investment against the often emotive demands of society. This, and the fact that the country is in the middle of a transition from being one of the most polluted sites in Asia to one of the more tightly regulated, suggests that there will be growing pains for some time to come.

"By 2010, more than 90 per cent of our total investment will have been approved since 1996 whereas in the developed world it will be the other way round," says Ramos. "This gives us a unique opportunity to ensure that we will develop in a clean and sustainable way."

For those who doubt the sincerity of the government'e conversion to "green consciousness", officials proudly point towards the controversial Bataan nuclear power station. The 600MW plant, mothballed in the 1980s after it was discovered that it was built on an earthquake fault-line, is to be converted into a gas-fired power plant.

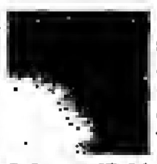
Bataan mark two, part of the government's drive to replace oil with locally-sourced natural gas, could also be the happy end to a sad story.

Westinghouse Electric, the original contractor, which was accused of bribing local officials to turn a blind eye to environmental problems related to the $2bn nuclear power project, last year paid $100m in compensation to the Philippines, including two gas turbines which will probably be used at Bataan.

"There are two benefits to the conversion of Bataan to a gas-fired plant," says Fernando Roxas, head of privatisation at the National Power Corporation. "First, gas is safe and environmentally clean. Second, it will help the country to reduce its dependence on imported oil which is expensive and dirty."

Make your own electricity

Australians in New South Wales with solar panels can sell excess power to a utility, says **Nikki Tait**



Solar spotlight

With its cloudless skies and affluent, environmentally-conscious population, Australia ought to be prime territory for solar energy. Yet fewer than 5 per cent of households are estimated to use any form of solar power.

Efforts to improve this have been under way for some time. The former Labor government, for example, backed a concessionary loan scheme for households installing solar water heaters and some local councils have run similar schemes.

But now Integral Energy, a state-owned electricity utility in New South Wales, has launched a broader initiative. It is offering households that install solar panels the opportunity to sell any surplus solar-generated power into the electricity grid.

The idea is not entirely innovative: Integral says that the scheme was modelled on a couple of Californian programmes, notably those run by South California Edison and Sacramento Municipal Utility District. However, it will be the first time that an Australian utility has offered a general buy-back arrangement.

Under Integral's plan, the cost and responsibility of installing the panels of solar cells – or photovoltaics – will rest with the consumer. This will not be cheap. Integral's own "solar packages" – which the utility hopes customers will use, although it is not required – cost from A$3,300 (£1,675) to A$48,000 (including installation charges, monitoring equipment and so on).

The cheapest product, with a typical peak output of 150W, would probably meet only about 5 per cent of an average family's needs. To meet most of an average family's needs would require a 2,250W system costing around A$28,000.

The big carrot in the Integral scheme is that on days when generation exceeds household use, the utility will buy that spare capacity – at a price slightly below the normal electricity sale rate.

At present, for example, the domestic price averages around 13.49 cents per KW/hour. Integral measures how much power is generated by a householder's solar system, and credits it against his account. When he needs a top-up from the grid, he buys it at the commercial rate. During that time, Integral also credits what the householder is generating at the same full commercial rate. When his system is generating a surplus, the excess is credited – or bought into the grid – at a discounted 10 cents rate.

Does the package make economic sense for individual consumers? Only if they are prepared to take the long view. Integral says the average household electricity bill among its own customer base is about A$800 to A$1,000 a year. So it would be several decades before a self-sufficient system – the A$28,000 model – paid for itself.

However, Integral, which has been "corporatised" but is still owned by the state government, maintains that its own finances should not suffer because it is encouraging people to seek an alternative energy source. Revenue from the sale and installation of solar products, it calculates, should more than offset the reduction in turnover that will result from the buy-back of solar-generated power.

In the first week since the scheme was announced, the utility says, it has received "hundreds of phone inquiries, reflecting a full spectrum of interest". But it remains cautious about the initial scale of the programme.

The scheme will be run as a two-year pilot, and over this period Integral is talking of perhaps 50 connections. Those consumers who do make that commitment, however, will be offered an interconnection agreement which guarantees buy-back rates until 2003.

Ross Bray/Wildtrack Media

Sunny outlook: Australia is starting to turn to exploitation of solar power

This appears as part of a continuing series – the previous article appeared on July 3.

Television

From science to psychic snake oil

Astrology, aromatherapy, ley lines and the like seem to have replaced serious screening, says **Christopher Dunkley**

Two cheers for Professor Richard Dawkins! He cannot, of course, hold back the tide any more than Canute could, and if he was as wise as the old king he, too, would doubtless recognise the fact. Yet it was time that somebody tried.

Not many years ago British television could pride itself on the quality of its journalism across the board, from late night programmes on BBC2 and Channel 4, where even intelligent viewers would sometimes find their intellect being stretched, to peak time programmes on ITV. There, over a period of 30 years, a disciplined and scrupulous form of popular journalism had been developed with an integrity which could either be seen on screen or could be detected by the assiduous viewer willing to follow the work of particular presenters and producers.

And now? Now we have ghosts and astrology, extra terrestrial kidnappers and cure-all potions, aromatherapy and ley lines, numerology and Nostradamus, all treated by broadcasters as though they are on the same level of seriousness as scientific research. It is the open-mindedness of the lunatic, unable to distinguish between reality and make-believe.

Today it is virtually unthinkable that Channel 4 should mount a series such as *Voices*, or BBC2 a series such as *Thinking Aloud*, both screened in the 1980s, both demanding that viewers use their brains a little. The live and open-ended *After Dark* which made room for serious ethical discussions has been scrapped by Channel 4 (a latterday one-off merely reminded us of what we are missing) and BBC2 has abandoned *The Late Show* and put nothing in its place.

But zap through the satellite and cable channels any night of the week and you will see not one but a whole selection of fortune tellers and tarot card "seers". Switch on *The National Lottery Live* and you find BBC1 promoting "Mystic Meg" who "reads" the future.

The billing for tonight's *Short Stories* on Channel 4 declares that "Littledean Hall ... is reputedly Britain's most haunted house ... home to Norman knights, English gentry and a collection of ghosts". Perhaps this programme will debunk such nonsense, but in these days of proud credulousness among broadcasters you cannot be certain.

Satellite and cable are the natural haunts of snake oil salesmen, but now there is not a single terrestrial channel where you can be sure of avoiding superstition and the supernatural presented as fact. BBC1 has given us *Out Of This World*, BBC2 *Secrets Of The Paranormal*, and ITV is now running another series of *Strange But True?* Presented by the hitherto respectable Michael Aspel, this series spends considerable sums on faking fairy stories, or, as they describe it, "dramatic reconstructions of supernatural events". Note the word "reconstructions" which presupposes that these are real occurrences rather than the flibbertigibbet phantasms of unhealthy imaginations.

> *It is the open-mindedness of the lunatic, unable to distinguish between reality and make-believe*

Last week's programme "reconstructed" a house party in a Venetian palazzo. Aspel's introduction stated "This is a city not just of gondolas but of ghosts" for all the world as though normal, rational people would agree upon the proven existence of both. It is hard to believe that this far-fetched tale would ever have reached the screen had the *Dynasty* actress Joan Collins not happened to be one of the party. She felt a cold draught on her ankle (golly) and others found sweets in odd patterns on the floor or "sensed" a presence emanating from a woman's portrait. All fled the building, then went back next day and "apologised" to the portrait for daring to eat in "her" dining room.

All this was presented with the same degree of seriousness as would be used to report on the health service or tax evasion, and although ITV (which, in motoring terms, has now become Ford: reliable ratings, yet boring and vulgar) might seem the ideal place for such populist moonshine, it has to be said that the BBC and Channel 4 are, in this respect, no better.

Hence the two cheers for *Break The Science Barrier With Richard Dawkins* on Channel 4. The third cheer is withheld because this was a one-off programme and we could do with lots more. Dawkins – proselytiser of Darwinism, author of "The Blind Watchmaker", and recently appointed Professor For The Public Understanding Of Science at Oxford – is rightly appalled at the rapid growth of obscurantist claptrap on television, and set out to show that there should not be equality of regard between the rational and the irrational.

Dawkins poured scorn on the American willingness to treat belief in the supernatural and belief in evolution as equally valid. He produced a conjuror who bent spoons as readily as Uri Geller and who said "Nobody has ever come forward who can demonstrate 'psychic abilities' under conditions precluding the chances of trickery".

He explained the value of the scientific approach to society generally. He highlighted the practical dangers of fads such as "psychic surgeons" who cut into people's stomachs without sterilising their instruments and without realising, in one case, that some of those cut open were HIV positive. He enlisted David Attenborough to illustrate the difference between a scientific and a non-scientific approach to understanding. While it was on screen it was enormously heartening and made you think that perhaps the bandwagon of irrationality and superstition is not after all an unstoppable juggernaut. But in retrospect it looks like someone trying to hold back the tide with a teaspoon.

Switch on for Mystic Meg's lottery 'insights' BBC

Television's elevation of superstition to a position of equality with rational thought is part and parcel of a much larger movement which embraces, among other things, the feminisation of western industrial societies. "Getting in touch with your feelings" is now widely regarded inside television as a pretty good answer to almost any problem.

Not long ago the approach of television current affairs departments to society's ills was to send out trained journalists to investigate on the ground and then make carefully considered reports. Today the favoured technique is to invite a lot of carefully selected, highly strung people into a studio, where a woman with a radio mike (sometimes a man, provided he exhibits all the feminist virtues, but more often a woman) rushes around eliciting emotional "soundbites" and whipping up a storm of animal noises and hissing if anybody – a doctor, say – dares to make a knowledgeable statement at odds with the prevailing feelings. It has more in common with the Spanish Inquisition or the Salem witchcraft trials than with science or serious journalism.

Yet if it is to be even marginally reduced, never mind abandoned, it will take more than one programme by Richard Dawkins, however admirable that programme.

Theatre

Impressive, sincere and slow Vanya

Alastair Macaulay on a less than moving production

The Edinburgh International Festival saved three of its most prestigious international productions till its closing weekend – Pina Bausch's choreographed staging of Gluck's *Iphigénie en Tauride* from Wuppertal, Robert Wilson's version of the Virgil Thomson-Gertrude Stein *Four Saints in Three Acts* from Houston, and Peter Stein's production of *Uncle Vanya* from Roma and Parma.

And suddenly Edinburgh audiences were peppered by prestigious theatre folk from England – Martin Duncan, Ralph Fiennes, Jonathan Kent, James Macdonald, Adrian Noble, Joanne Pearce, et al – and from abroad.

One would love to know what the local directors and actors made of these visiting productions. In some cases, one could tell: at the closing night of *Vanya*, Fiennes and Kent were the first to leap to their feet in what became a standing ovation.

Il Zio Vania, as Chekhov's play becomes in Italian, is a production exquisite, sensitive, and intelligent in its every detail; and I cannot resist adding that it is, in most respects, a demonstration of everything that is missing from the superficial and insincere Chichester *Uncle Vanya* (new in July) that is now moving to the West End.

The moment-by-moment physical chemistry between Astrov (Remo Girone, elegant and virile, an outstandingly "right" interpretation) and Yelena (Maddalena Crippa, a languid and glamorous blonde porcelain doll just starting to lose her youth) is both funny and exciting. The big ensemble scene in Act Three, where Vanya and Serebryakov clash so upsettingly and which is normally played as a loud climax, here becomes all the more persuasive because it is played quietly.

From that point to the following act, Roberto Herlitzka expresses Vanya's breakdown so lucidly that he really does seem suddenly to age 20 years before our very eyes: an exceptional feat, reminding me of descriptions of some of Duse's great moments.

Tiny details add a wonderfully "clinching" dash of conviction. As Yelena departs at the end, she lets Vanya press his lips in anguished ardour to her hand – and, having left the room, she turns, in exactly the spot where Vanya will not see her, to take a farewell view of Astrov. Even the way that the workman enters, looking in the *wrong* direction, to tell Astrov that his horses are ready is perfect.

I do, however, take issue with Herlitzka's Vanya, which becomes so intense a study in self-dramatising self-pity that it becomes remarkably close to insincerity. When, in the last act, he dives extravagantly for Astrov's medicine-bag, or when he slowly zig-zags across the room bent almost double with misery, he externalises his despair too much to be affecting. And I believe that Chekhov would have objected to the often overt and external style of this Italian *Vanya*. All the notes he gave the Moscow Arts Theatre actors when he saw the Stanislavsky *Vanya* were against overtness of action and external appearances. And, in one important respect, Stein's *Vanya* breaks from the Chekhovian style that has been the general rule in Britain since the seminal Komisarjevsky stagings of the 1930s. Whereas the "Komie" tradition has Chekhov played "with the fourth wall down" (with a realism that the audience seems to be observing as if by accident), Stein's staging has the big moments played full-front to the audience. They are also played, very often, centre-stage.

This is the slowest *Vanya* I have known, and Chekhov strongly objected to the slowness of Stanislavsky's staging of *The Seagull*. Stein goes more overboard on "realistic" noises off than I have known in any other Chekhov staging; in the first 10 minutes of Act One alone, we hear a pastoral symphony, including birdsong, crickets, a cuckoo, cows, labourers' shouts, a cockerel, ducks, and sheep.

Chekhov, however, according to Nemirovich-Danchenko, threatened – after all the offstage noise in the Stanislavsky *Seagull* – to put a stage direction in his next play saying "The action takes place in a country where there are no mosquitoes or crickets or other insects that interfere with people's conversations".

Nor, eventually, is this *Vanya* moving. Impressive, "felt", sincere, yes. But it is simply too exquisite; and, like every Stein staging of a play I have seen, too slow. (I prefer Stein's opera productions just because he can't control their tempo.) Everything in this *Vanya* has been so carefully distilled that it is as if we are recollecting it in elegiac tranquillity. Even though Stein has some actors enter and exit through the audience, the production seems to be happening in a bell-jar.

Leonore and Fidelio side by side

David Murray compares two performances at Salzburg

In Beethoven's *Leonore and Fidelio*, of course, "Fidelio" is Leonore, masquerading as a male prison warder while she searches for her unjustly imprisoned husband. The original 1805 opera was called *Leonore*, like the revised version of the next year (and the various overtures that Beethoven kept trying out); it became the *Fidelio* we knew only in 1814, when the composer and his new librettist Treitschke undertook a much more drastic revision.

Once in a blue moon, somebody revives *Leonore*: at the ENO a long while back, for example, and by John Eliot Gardiner at a Prom last month. The "semi-staged" Gardiner performance was part of an extensive tour that culminated in two performances at Salzburg, where *Fidelio* itself was newly produced by Herbert Wernicke in his own stark décor. Together they offered a rare opportunity to compare Beethoven's first and last ideas.

Contentiously, Gardiner wanted not just to exhume *Leonore* as an historical curio, but to make a case for it as an integral, independent work – not a mere first draft for *Fidelio*, but an opera which commands respect in its own right. In that, he surely succeeded. As adapted for the Albert Hall, the semi-staging was thought unsatisfactory, but set in the great Felsenreitschule (as *Fidelio* has often been in past years) with its atony tiers of arches – it seemed more than sufficient, even with the spoken dialogue replaced by dramatic narration. In fact, this *Leonore* had a sustained power that Wernicke's *Fidelio* quite lacked. Though the latter had a more high-powered cast, it was imprisoned in a huge, featureless black box, steeply raked, with blinding white lights at the far end – the sort of set that says between gritted teeth, "I am a Concept, and don't you forget it!" The convicts emerging into the "spring sunlight" (there was none) have never looked so forlorn, even though there was a mysterious row of music stands waiting for them. The music stands were there again for the Finale, with the chorus spaced out, looking neither to left nor right; *Fidelio* became mere oratorio.

> *Leonore had a nicely characterised father Rocco; in Fidelio, however, the Rocco was something else*

Solti should have conducted it, but at the performance I heard he was replaced – unannounced – by Philippe Auguin. (At the end some of the audience took vocal exception to that.) Ben Heppner's Florestan was straight out of the Jon Vickers mould: great wounded bellows, but also moving in subtle details. A sweet, brave Leonore from Cheryl Studer, marginally flat on top notes, suggested that the music really calls for a heavier voice. In the same roles in *Leonore*, Kim Begley and Hillevi Martinpelto sang admirably for Gardiner.

He also had a delightfully fresh, intelligent Marzelline in Christiane Oelze, a bright tenor Jacquino in Michael Schade, and a nicely characterised father Rocco from Franz Hawlata. In *Fidelio*, however, the Rocco was something else, a towering, formidable portrayal by René Pape; and Gardiner's Pizarro was outclassed by Solti's Tom Fox, whose lusty attack on the music made it sound eminently singable.

And the competing scores? Well, nobody would want to give up the final version of the final chorus in favour of *Leonore's*; nor the inspired expansion of Florestan's *scena*, nor many of the retouched details. Still, one might be strongly tempted to restore the 1804 ordering of Act 1, starting with Marzelline's wistful aria "O wär ich schon mit dir vereint" instead of her operetta-ish duet with Jacquino, and continuing in a more cogent sequence. In the programme book Nicholas McNair argued eloquently for the dramatic integrity of the original structure, and I found him – and Gardiner's performance – remarkably persuasive.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Paradiso Tel: 31-20-6264521
● Radio Kamer Orkest: with conductor Peter Eötvös and participants of the Kirill Kondrashin Conductor Masterclass, violinist Irvine Arditti and pianist Kristi Becker perform works by Hyo-Sung Kim, Markus Schmitt, Regis Campo, Joyce Bee Tuan Koh and Robert H.P. Platz; 8.30pm; Sep 6

BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Junge Deutsche Philharmonie: with conductor David Shallon and pianist Homero Francesch perform works by Dutilleux, Ravel and Stravinsky; 8pm; Sep 5

DANCE
Deutsche Oper Berlin Tel: 49-30-3438401
● Undine: a choreography by John Neumeier to music by Henze, performed by the Ballett of the Deutsche Oper Berlin. Soloists include Marguerite Donlon and Christine Camillo; 7.30pm; Sep 5

EXHIBITION
Bröhan-Museum Tel: 49-30-3214029
● *Wasserwelten. Das Motiv des Wassers in der Kunst des Jugendstils*: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. At the turn of the century, artists made extensive use of waves, sea, fish, nymphs and sea animals as elements of decoration. The display includes paintings, porcelain, and works in metal and glass; to Sep 15

COPENHAGEN

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● Hamlet: a choreography by Peter Schaufuss to music by Langgaard/Sol, performed by the Royal Danish Ballet; 8pm; Sep 5, 6

EXHIBITION
Statens Museum for Kunst – Royal Museum of Fine Arts Tel: 45-33 91 21 26
● Electronic Undercurrents – Nam June Paik Video Sculptures: the whole ground floor of the Statens Museum for Kunst, about 3,000 square metres, is cleared to make room for the video exhibitions "Nam June Paik Video Sculptures", "American Film & Video: Whitney Biennial" and "Art & Video in Europe" with the collective title "Electronic Undercurrents". The three exhibitions combine to give an overall picture of international video art today; from Sep 7 to Nov 30

EISENSTADT

CONCERT
Schloss Esterhazy – Festspiele Eisenstadt Tel: 43-2682-61866
● Orchestra Haydn di Bolzano: with conductor and pianist Stefan Vladar and soprano Eva Lind perform works by Mozart and Haydn. Part of the Haydntage; 7.30pm; Sep 7

LONDON

EXHIBITION
Victoria & Albert Museum Tel: 44-171-9388500
● Susie Cooper (1902-1995): style, affordability and good design were the key attributes of Susie Cooper's tableware. This memorial display shows a cross-section of her work from the Art Deco years of the late 1920s and 30s through the bone china made by her own factory and her late designs of the 1980s; to Sep 15

LOS ANGELES

CONCERT
Hollywood Bowl Tel: 1-213-850-2000
● Los Angeles Philharmonic: with conductors William Eddins and Marvin Laird and vocalist Bernadette Peters perform works by Gershwin, Rodgers, Morton, Copland, Lloyd Webber, Sondheim, Hart and Sousa; 8.30pm; Sep 6, 7

MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● ?BUNUEL! La mirada del siglo: this exhibition, centered around Luis Buñuel's film "La edad de oro", focuses on work by people who inspired Buñuel or were themselves inspired by his work. The display features some 500 works, including paintings, drawings, sculptura, books and photographs. Artists represented include Dalí, Miró, Magritte, Giacometti, Picabia, Ernst, Tamaflo, Man Ray, Alvarez Bravo and Garcia Lorca. Also on display is a selection of 50 photographs of Buñuel working on a film shoot, made by Gabriel Figueroa; to Oct 14

MONTREUX

CONCERT
Auditorium Stravinski Tel: 41-21-9622111
● Orchestra of the Eighteenth Century: with conductor Frans Brüggen and violinist Thomas Zehetmair perform works by Haydn, Beethoven and Rameau. Part of the Festival de Musique Montreux-Vevey; 6pm; Sep 8

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● American Printmaking 1860-1900: Winslow Homer and His Contemporaries: an exhibition to complement the Homer painting retrospective by providing a context for the artist's printmaking efforts. Drawn entirely from the museum's collection, Homer printmaking from his early and late career is shown along with works by printmakers active during Homer's career; to Sep 22

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Gaetano Pesce: a retrospective exhibition devoted to this artist, featuring furniture, objects and architectural projects; to Oct 7

ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Orchestra dell' Acadamia Nazionale di Santa Cecilia: with conductor Dmitry Sitkovetsky and violinist Uto Ughi perform Mozart's Violin Concerto in G major, K216 and Violin Concerto in D major, K218. Part of the Mozart Festival; 8.30pm; Sep 5, 6

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony: with conductor Michael Tilson Thomas, mezzo-soprano Michelle DeYoung, pianist Christopher O'Riley and organ-player John Fenstermaker perform works by Mackey, Beethoven and Ives; 8pm; Sep 5

STOCKHOLM

CONCERT
Stockholms Konserthuset Tel: 46-8-7860200
● Philharmonic Circus: performance at Circus Scott by the Royal Stockholm Philharmonic Orchestra with conductor Nicholas Cleobury and soprano Tua Aberg. The concert is part of the Royal Swedish Festival, focusing on singer Jenny Lind who between 1850 and 1852 toured North America on the initiative of circus director Barnum. During performances by elephants, horses, acrobats and clowns, the orchestra plays works by Dvořák, Rossini, Shostakovich, Bellini, Khachaturian and Ravel; 6pm; Sep 6

VIENNA

OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Der Freischütz: by Weber. Conducted by Leopold Hager and performed by the Wiener Staatsoper. Soloists include Adrianna Pieczonka, Ruth Ziesak and Peter Weber; 7.30pm; Sep 5

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Ian Davidson

Least bad solution

There is no consensus on whether the process in Bosnia is to rebuild a multi-ethnic state or legalise partition

Next week's elections in Bosnia were intended, in the Dayton peace agreement, to be a decisive step towards the restoration of ethnic harmony in that war-torn country. Of course, they will do no such thing. On the contrary, they will further intensify the *ethnic antagonism* between the communities, because the driving political forces in each community are the ultra-nationalists.

These elections are a multi-tiered affair, for the institutions of the two component sub-states (the Bosnian Serb Republic and the Federation of Moslems and Croats), for the loose over-arching institutions of Bosnia-Hercegovina which are supposed to link them together, and for the municipalities. But last week the municipal elections were postponed because of systematic rigging of the electoral registers by the Serbs.

The rigging was in fact legal, if contrary to the multi-ethnic spirit of the agreement. The drafters of Dayton had provided that voters should register in the places where they came from. But since there could be problems about freedom of movement, they also left open a loophole for voters to register anywhere they wanted. So the Serbian authorities have used heavy intimidation to compel Serbian refugees to register in places where their votes would do most good for the Serbian ethnic cause.

In other words, the Serbs have been trying to extend, by the ballot, that extra stretch of ethnic cleansing that they did not achieve by the bullet.

The International Crisis Group, a non-governmental body monitoring the Dayton agreement, has urged that all the votes should be postponed, not just the municipals, because none of the preconditions for fair elections are being observed.

Few of the refugees have been able to return to their homes; almost all those indicted for war crimes are still at large; freedom of movement is widely prevented; and freedom of expression is systematically curbed by the ruling parties in each community.

In the circumstances, it may seem odd thet it is only the municipal elections which have been postponed, even though the rigging of the registers will also affect the other elections.

The explanation is simple, however. President Clinton has guaranteed that US troops in the multi-national Implementation Force (Ifor) will be withdrawn in December, and Washington was determined that this deadline should not be put in question by a delay in the elections.

As a result, the municipal vote is being postponed by only two months. This is no doubt too soon to change the registration rules; so these elections will be gerrymandered all the same, but not until after the presidential elections in the US. For the fact is that the December deadline is purely driven by domestic electoral pressures in the US, and has nothing to do with the peace process in Bosnia.

International moralists prefer the ideal of a multi-ethnic Bosnia because they do not want to see ethnic cleansing rewarded

As it turned out, the purely military operation of stopping the fighting was quicker and more painless than might have been expected. But the civilian process of rebuilding a new Bosnia has been much slower.

This was partly because the civilian operation was deprived, at American insistence, of any authority, but mainly because a military solution can be imposed, whereas the civilian rebuilding must be negotiated.

Whether any of the three communities really intends to rebuild Bosnia in the spirit of Dayton may be *doubted*. But *if the process* is to have a chance, it will certainly need to be buttressed by a military peacekeeping force well bayond the Dacember deadline.

Last week, at an international seminar at Harvard on the implementation of Dayton, I found a remarkable degree of convergence on four propositions: some follow-up force to Ifor will be necessary; it could be half the size of the present 60,000-strong force; but it must again be led by the US; and the US must again provide troops on the ground.

The US decision will be critical, not just for the Dayton process, but also for the future of Nato. For four years the US and Europe were bitterly at loggerheads over Bosnia. But Dayton has become the acid test as to whether Nato has a role to play in the post-cold war world.

If the US walks out of Ifor, it will inflict a lethal blow to the credibility of Nato, and it will become pointless even to talk about enlarging it into eastern Europe.

Needless to say, last week the official American participants were careful not to commit themselves on any of this. But the analysis from several western capitals seemed to come to similar conclusions.

And yet there is no consensus on the ultimate purpose of the peace process. Is it to rebuild a multi-ethnic state? Or is it to legalise the *reality of ethnic partition?* Dayton proclaims the first, high-minded objective; but it looks like a recipe for partition.

In practice, partition may be the only viable medium-term solution. Some international moralists prefer the ideal of a multi-ethnic Bosnia, because they do not want to see ethnic cleansing rewarded. But some realists say that the launching of *ethnic slaughter creates* such inherent insecurity for all that safety and stability can only be built on separation: Humpty Dumpty cannot be put together again.

Chaim Kaufmann, of Lehigh University in the US, argues* thet ethnic conflicts can only end in three ways: complete victory by one side; temporary suppression of the conflict by *outside intervention; or separation* of the warring communities.

He says this is confirmed by the historic record of recent conflicts. Of 27 ethnic wars, 12 ended with complete victory by one side, two by external intervention, five with effective partition, and the remaining eight with affective local autonomy. None ended with the restoration of the multi-ethnic status qno ante.

If he is right, and if the ontside world is not prepared for the enormous effort required to impose a multi-ethnic Bosnia (and it is not), then ethnic *cleansing through the ballot box* may be the best option there is.

**Possible and Impossible Solutions to Ethnic Civil Wars, in International Security, Vol 20 No 4 (Spring 1996)*

·LETTERS TO THE EDITOR·

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Real passion is about how, not whether, to build a social Europe

From Prof Brian Bercusson.

Sir, Is "the reality of what is actually covered by the EU's limited social agenda" *meagre, lacking in principle* and pointless ("Unions learn to love Europe", August 27)? If so, how does one explain the activism of the Trades Union Congress, the alarm of employers' organisations (letter from the Institute of Directors, August 30), and the rich literature in all the member states on the developing European labour law, including comprehensive treatises? Ostrich vision should be confined to Emu.

An example: the UK opt-out does not mean a social agenda is not pursued. It is stated that the UK can veto proposals under the social chapter. True, but only after it adheres to the agreement annexed to the protocol on social policy. Until then, member states are free to adopt measures which will bind the Community (and eventually the UK) in the future, regardless of the present UK government's point of view (as with the directives on European works councils and parental leave).

As to its alleged patchy impact, one example of a rather large patch is the working time directive. As of November 23, it prescribes a maximum 48-hour average working week. The implications for working time patterns at a time when some 16 per cent of British workers (more than 25 per cent of male workers) *normally* work more than 48 hours are obvious. Reducing the long hours worked to compensate for low basic hourly rates will spill over into the debate over a national minimum wage. Those hoping for a possible additional seven-year opt-out should consider whether the UK's refusal to implement the directive allows this.

It is said that "outside the UK, the EU's social agenda arouses little passion". The UK's passion is over whether there should be a social agenda at all; as such it is lonely. In the other member states, there is passionate and usually constructive argument over the principles and procedures of social Europe. That is the reality.

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More than foresight behind success

From Mr Kieran Levis.

Sir, John Kay ("Of fortunes and foresight", August 30) is disingenuous in suggesting Gary Hamel and C.K. Prahalad base their thesis in competing for the future simply on the need for foresight. They place equal emphasis on core competences, where their thinking is not inconsistent with that expounded in Professor Kay's own book, The Foundations of Corporate Success.

Of course it is difficult to anticipate the evolution of industries and markets, but evolve they *inevitably will*, throwing up new and unfamiliar forms of competition. Hamel and Prahalad's central argument is that companies which do not develop a point of view about the future run the risk of, at best, ceding leadership to others. Without a modicum of foresight, businesses are condemned to react to change rather than to mould it.

As Kay says, pioneers often fail to become market leaders. *But they can only be* overtaken in new industries by those who have thought enough about the future to have developed the right competences. Those who fail to do this do not even get to the starting line.

Kieran Levis,
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Bundesbank should stick to monetary role

From Mr Simon Hunter.

Sir, Your leader *"Bundesbank teases again"* (August 23) says that the Bundesbank, in cutting the repo rate to 3 per cent, "ought to take the international context into account . . . (because of) the political stakes in economic and monetary union". Lex ("Bundesbank") would seem to disagree, proving that the FT is a broad church.

Are you in fact arguing for an unelected, undemocratic institution, whose sole remit is monetary stability in Germany, to take an explicitly political role in Europe? I would argue that if Chancellor Kohl suspects the Bundesbank president of meddling in politics, he should summon him and tell him publicly to keep his hands off. This time, the Bundesbank's actions may be politically convenient for Chancellor Kohl. They may not be so for ever.

Simon Hunter,
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UK on a par with other monarchies

From Mr S.F. Bush.

Sir, In your editorial "A future for the monarchy" (August 20) you recommend two changes in the laws of succession which would enable Britain's monarchy "to adapt to a changing world" in the way other monarchies in northern Europe have done. Leaving on one side the fact that our monarchy is not just the concern of the Queen's subjects in the UK, it is worth reviewing what the laws of succession in other north European countries actually are.

In the Netherlands, Denmark and Norway succession is by primogeniture in the male line. In default of a male heir, females may succeed: only in Sweden is the heir-apparent the first-born child and this will apply for the first time only in the next succession.

In Denmark the sovereign must be a member of the Evangelical Lutheran State Church – ie, Protestant. In Norway the king nominates the clergy in the State Lutheran Church. In The Dutch royal family belongs to the Dutch Reformed Church. Roman Catholics are barred from the succession, although they form a majority of those declaring a religion. In Sweden the Evangelical Lutheran Church is the established national church.

Thus, with the sole exception of Sweden's new law on female succession, the British laws of succession are essentially the same as those in the other north European monarchies, and not hangovers from what you refer to as "medieval times".

S.F. Bush,
Genval,
Millstone Close,
Poynton, Cheshire, UK

A steep learning curve

ON THE BEATEN TRACK

Stephen Venables looks at commercial lessons learnt en route to the top of the world

Mount Everest as litter bin has become a cliché of our times. There is a growing public belief that the world's highest mountain is ruined – that a once great symbol has somehow become sullied, overcrowded, commercialised and cheapened. The reality is a little more complicated.

Ambitious individuals can now pay up to $60,000 (£38,500) for a place on a commercial expedition, with the option of using a satellite link from base camp to keep in touch with share prices back home while they strive for the summit of their dreams under expert guidance.

It all seems a far cry from 1921, when the first British reconnaissance expedition set off from Darjeeling, marching nearly 300 miles to unlock the secrets of one of the last great geographical goals. These men were true explorers in the Victorian tradition, an elite band of amateurs whose deeds were recorded with decorous underatatement in The Times.

That spirit pervaded, more or less, the numerous Everest attempts from Tibet during the 1920s and 1930s, and on into the successful ascent from Nepal in 1953. George Lowe, one of the two New Zealanders on the 1953 expedition, regards himself as "very lucky and privileged to have been there when I was". He helped make history on the mountain when he was one of the first westerners to visit the interior of Nepal. But as he admits, a touch ruefully: "We were the ones who opened the oyster."

The pearl is Sola Khumbu – an area of high valleys, about 30 miles square, ringed by some of the most beautiful mountains on earth, including Everest, or Sagamartha. The local population of 10,000 Sherpas is now outnumbered by the tourists who come each year. Some are climbers, but the majority trek only as far as glacier level; all bring money and new aspirations to what was recently an isolated community of subsistence farmers. It was partly in anticipation of these changes that Sir Edmund Hillary set up the Himalayan Trust, building hospitals and schools for the Sherpas.

The Himalayas: on track to find their glitzy potential

One of the pupils at Hillary's first school was Sherpa Pertemba. He diverted the Sherpas' entrepreneurial merchant spirit into tourism, first working for Jimmy Roberts, the ex-Ghurka officer who invented the whole trekking business in the 1960s, then progressing to the lucrative but dangerous business of working for climbing expeditions. He now runs his own office from Kathmandu.

Of course the visitors put pressures on the land, but litter is now being dealt with by incinerators. The much decried deforestation is less of a problem inside the Sagamartha National Park than outside, and the Himalayan Trust's seedlings are recovering many slopes. Kerosene and a small hydroelectric scheme bave reduced the pressure to burn firewood.

Much of this activity is co-ordinated by Mingma Norbu Sherpa, manager of the Sagamartha Pollution Control Committee. And if that smacks of Big Brother bureaucracy, I suppose that it is the price we have to pay for the honeypot syndrome.

Concentrate visitors in a small area of outstanding beauty and you have to exert controls and create an infrastructure to stop them destroying that beauty. For those who abhor regimentation, tha Himalaya range stretches for more than 1,500 miles from Afghanistan to Assam. Just 18 miles from Everest, in 1991, we had to use kukri knives to back a trail through virgin jungle, within minutes of leaving the well-trodden Everest path. The charm of remote adventure can still be found.

Trekking will remain popular on the Nepalese side of Everest. The ebullient hospitality and entrepreneurial savoir-faire of the Sherpas, the rivers and meadows, the monastery at Thyangboche, the incomparable crystalline peaks of Ama Dablam, Kantega, Cholatse . . . all this is very appealing and is enhanced by the highest summit of all – the symbol which gives the area its unique selling point. The question is bow long the symbol will retain its kudos.

I can remember my awe in 1975, meeting members of Chris Bonington's expedition to the south-west face of Everest. They were the best climbers of their day and, like the 1953 team, they had made history. Thirteen years later, setting off in the middle of the night from our top camp on the South Col, I experienced the buzz which I should imagine is the same for a cricketer taking the crease at Lord's, or a soprano making her first entry at La Scala – a sense of joining a fine and rather elitist tradition.

The fact that we had reached the South Col as a small team, unaided and by a difficult new route, intensified the buzz. We were trying to emulate the recent outstanding mountaineers such as Reinhold Messner. Far from destroying the kudos of Everest, they had kept it alive.

It is only in the past three or four years that the emphasis has shifted to commercial expeditions, concentrating paying clients on the two "normal" routes from Nepal and Tibet. *Some* of these clients seem to be inexperienced opportunists seeking the quick shot of instant gratification. As my Everest experience was a natural progression from 25 years' involvement with mountains, I cannot help a twinge of resentment.

However, this is probably just the snobbery of the village worthy who resents the nouveau riche arriviste moving into the manor house. In any case, as George Lowe says: "Guides have been taking people up the Matterhorn for years; on Everest the progression has just been much quicker."

The mountain has always been commercial, but only recently has its full glitzy potential been realised.

For those who still seek old-fashioned pioneering romance, there are still unclimbed routes on Everest: more importantly, there are thousands and thousands of other, quieter, mountains to climb.

Stephen Venables was the first Briton to climb Everest without oxygen

This is the eighth in a series on places changed by mass tourism

مكتوب من الأصل

COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday September 4 1996

Mad cows and Englishmen

BSE not only makes cows mad. It is causing an epidemic of irrational behaviour across Europe. In rightwing British politicians, the symptoms are bouts of wild xenophobia. French farmers drove a herd of cattle across the country, blocked roads and harassed tourists, as if they had started the infection. German consumers are shunning beef from herds which are said to be disease-free, long after the banning of UK imports.

Now it emerges that in 1993 EC officials were trying to cover up the dangers to the public of bovine spongiform encephalopathy. Since then anxieties have been inflamed by disturbingly inconsistent advice from government and other scientists.

Only nine months ago, the UK government was proclaiming that BSE and similar diseases could not be passed between species, that it was not transmitted from cow to calf and that there was no risk at all to human life. Since then, a series of bungled announcements and scientific disclosures has put each of these propositions in doubt. The risk to humans may yet prove to be vanishingly small. However, earlier this year, French scientists found that monkeys infected with BSE developed symptoms close to those of the human equivalent, Creutzfeldt-Jakob Disease.

Last month it was announced that a six-year study by the UK ministry of agriculture suggested that a very small number of calves might get the disease from their mothers. This put in doubt the UK's strategy of eliminating the disease by a cull of some 147,000 adult animals. EU officials, who had helped to negotiate this strategy for agreement by heads of government in Florence in June, were understandably annoyed. German citizens burned a British flag.

Last week another row was provoked by the findings of a study by UK government scientists and Oxford University. This suggested that a large scale slaughter of cattle, costing some £150m, was not necessary. Since the government banned the use of suspected animal remains in cattle feed, the disease has been decisively on the wane. Only about 7,000 more cases can be expected in the next five years, about a tenth of the number in the past 10 years. After that it will almost disappear.

This puts the UK government's policy in sorry confusion. It agreed reluctantly to a large scale cull which is opposed by many British farmers, may fail to restore the confidence of continental consumers, and will probably not persuade the EU to lift the export ban by the government's target date in November. Now it seems the cull is unnecessary.

There is only one way out. The UK government must abandon its confrontational attempt to force the EU to lift the ban unrealistically soon, and explain why. Since German housewives will not eat British beef until they are convinced that it is safe, rebuilding exports may take many years, whether or not they are banned. This may require a small cull as well as improved hygiene in slaughterhouses. But the idea of a political trade-off between numbers of carcasses and a date to end the ban now looks merely absurd.

Target Saddam

"Limited but clear." President Clinton's description of yesterday's US actions against Iraq is telling. Missile strikes, an extension of the "no-fly zone" in the south of the country, and suspension of the UN oil-for-food deal are an emphatic response to Saddam Hussein's latest military adventure. But they are the least the US could do, and in themselves do nothing to clarify the west's ultimate objectives in dealing with the Iraqi dictator.

In one sense, America's action reflects weakness not strength. Saddam's latest outrage took place in the north of the country, while the US is focusing its fire in the south, where it can act without assistance from doubtful allies such as Turkey. This is hardly the basis for a sustained campaign against Iraqi subjugation of the Kurds.

On the other hand, as Mr Michael Portillo, UK defence secretary, pointed out yesterday, "we have to do what we can with the assets that we have". Suspending the UN deal closes firmly the first chink in the west's sanctions against Baghdad. Extending the no-fly zone to the outskirts of his capital could give Saddam pause.

What happens next is in his hands. With Mr Clinton under some domestic pressure over his uncertain handling of the Kurdish "safe haven", electoral politics will prompt a tough response to further provocation.

Much less clear is where all this leads. The US and most of its allies long since concluded that Saddam is a congenital threat to his own people and his neighbours, but they lack the will to state openly their desire to topple him. Such a move might not bear immediate fruit, but would at least be honest.

Troubled trusts

In a bull market investors can easily become complacent and fail to ask questions about where extraordinary growth is coming from. But trouble is now brushing the normally well-ordered UK unit trust market where dealings in two European specialist trusts (together with a similar Dublin-based offshore fund) run by Morgan Grenfell have been suspended, apparently because of irregularities involving valuations of Nordic technology investments.

The news follows revelations of rulebreaking at the Hong Kong associate company of Robert Fleming, another big UK unit trust provider, although no UK funds have been involved in this case.

The Morgan Grenfell problems centre on the £700m-plus European Growth Fund, until this year a runaway top performer in its sector.

In the business of mutual funds, performance is a vital ingredient of sales success. And when money flows in to a narrowly invested fund, the value of the assets it invests in is further supported. But when investors take their profits and money flows out, instability may result as the illiquid underlying markets are undermined.

When fund managers seek exceptional performance, however, there is a strong temptation to concentrate risks. The Morgan Grenfell fund had half its assets in the small Nordic markets last spring, and a third of the portfolio last May was in Nordic stocks which were not even fully listed, although technically it may have complied with a 10 per cent ceiling on unlisted assets.

There is an obvious issue of commercial reputation here for Morgan Grenfell, to which it has responded with promises of restitution for investors. The investors involved were making what they knew were risky investments in the expectation of high returns; so let the buyer beware. But the losses appear to be the result of inadequate controls rather than normal investment risks, which is why the fund manager is exposed.

Morgan Grenfell and other financial institutions are left to ponder once again on the problems of managing high-profile money-making individuals. How can they be given sufficient freedom to develop their talents, while being kept under prudent supervision? In a bull market vigilance may slip.

There is a particular cultural challenge for Deutsche Bank, owner of Morgan Grenfell Asset Management, and for other German banks which have also taken over London-based equity investment houses.

As for the regulators, they are closely involved in restoring confidence in the Morgan Grenfell funds: the question is whether they could have suppressed the problem before it developed. The role of the trustee banks, there to safeguard the assets, also needs to be looked at carefully.

The overall trend in regulation has been strongly towards liberalisation. Thus unit trusts have been given greater freedom to expand in emerging markets and derivatives. This deregulation can only work if, first, investors (and their brokers) are made fully aware of the increased risks and; second, clear breaches of the remaining rules are rigorously punished.

A drag on tobacco shares

Wall Street has turned so gloomy over the threat of lawsuits that US cigarette-makers may be forced to settle, says **Richard Tomkins**

As smokers' stories go, Mr Grady Carter's is not unusual. He started smoking in 1947 at the age of 17, adopted unfiltered Lucky Strike as his favourite brand, quit on finding he had cancer in 1991, and had part of a lung removed the same year.

The difference is that Mr Carter, a retired air traffic controller from Jacksonville, Florida, sued the US tobacco industry, and won. Last month, at the end of a three-week trial, a Florida jury awarded him and his wife Mildred $750,000 (£480,769) in damages against Brown & Williamson Tobacco, Lucky Strike's manufacturer.

The award was substantial: yet it paled into insignificance in comparison with the effect on tobacco companies' shares. Investors knocked about $15bn from the combined market capitalisations of US tobacco companies amid fears that the case marked a historic turning-point for tobacco litigation.

Share prices have crept back up a little following the tobacco industry's triumph in another case 10 days ago. But their continuing low levels suggest a lingering perception that time is running out for Big Tobacco.

"The Florida verdict proves that it is economically viable for any good attorney to take on the tobacco industry virtually anywhere in the US, and to win," says Professor Richard Daynard, head of the Tobacco Products Liability Project at Boston's Northeastern University School of Law.

If the tobacco industry's luck is turning in the courts, it is holding out on the streets. Government efforts to cut the proportion of adult smokers to 15 per cent by the end of the decade have hit a wall. After declining from a peak of 42 per cent in 1966, it bottomed out at 25 per cent in 1990 and has stuck there since, with nearly 3,000 new smokers a day replacing those who give up or die.

Mr Bill Clinton, the first actively anti-smoking president, is now seeking to cut off the supply of new smokers by cracking down on youth access to cigarettes and imposing tough restrictions on advertising. He has also declared nicotine an addictive drug and put the tobacco industry under the jurisdiction of the Food and Drug Administration, a move the tobacco industry is bitterly resisting in the courts.

In practice, Mr Clinton's attempts to curb under-age smoking may have little effect. Studies have shown that teenagers who take up smoking do so because of peer pressure or the influence of other smokers in the family, not because they are seduced by advertising images of the Marlboro Man or Joe Camel. And under-age smokers who want to obtain cigarettes illegally will continue to find ways of doing so.

Litigation, however, is a more serious threat. Theoretically, the tobacco companies could face claims running into billions of dollars if cases go against them, dwarfing the sums awarded in personal injury claims against the asbestos industry.

Until now, the US tobacco industry has not paid out a cent in damages because juries have taken the view that people who take up smoking are aware of the risks. The Florida case was different because the jury saw leaked documents indicating that US cigarette-makers knew about, but concealed, information about the addictiveness and health risks associated with smoking.

Documents such as these, say anti-tobacco lawyers, have transformed the outlook for tobacco litigation. Mr Norwood Wilner, Mr Grady Carter's lawyer in the Florida case, says: "Even today, the tobacco companies come into court and deny that cigarettes cause disease. Yet these documents show that the companies' own people have for years been discovering that cigarettes cause cancer and that cigarettes are addictive, and writing that in their own files."

Mr Wilner's Florida law firm, Spohrer Wilner Maxwell Maciejewski & Stanford, has hundreds of tobacco lawsuits in preparation, and Mr Wilner says he expects to win a high percentage of them. "Anyone who was at the last trial knows it wasn't even close. So unless the tobacco companies come up with a whole new ball game, I think they will be losing their fair share," he says.

Simple arithmetic suggests that, if cases do start going the plaintiffs' way, large numbers of lawyers will pursue them. At the Tobacco Products Liability Project, Mr Daynard says the typical trial lawyer's contingency fee is a third of the damages won. "So if trial lawyers stand a 50/50 chance of winning a $750,000 verdict, they can expect to average $125,000 a case," Mr Daynard says. "That isn't too bad for a coupla of weeks' work. For American trial lawyers, this becomes a very attractive area to get involved in."

The stock market already seems to have decided that the industry's days are numbered. Wall Street analysts say the earnings from Philip Morris's food and international tobacco businesses, which accounted for 66 per cent of operating profits last year, would justify a share price of about $85: so with Philip Morris's stock at $89¾ yesterday, the market was putting a value of next to nothing on the company's US tobacco subsidiary – a business that generated operating profits of $3.74bn last year.

Mr Gary Black, a tobacco analyst at the Wall Street firm of Sanford C. Bernstein, has constructed a doomsday scenario for tobacco litigation which draws on the experience of the asbestos industry. The scenario assumes no damages are payable to people who started smoking after the warnings on cigarette packs were strengthened in 1969, and makes allowances for the fact that not every smoker will sue, or win.

Under this scenario, Mr Black calculates that damages against the industry could total $25bn in today's money, of which Philip Morris's share would be $10bn. Conversely, he calculates that Philip Morris's capitalisation would be $40bn higher without the litigation risk. "In other words, the market appears to be discounting a disaster that is four times as bad as the worst case we can dream up," Mr Black says.

So what are tobacco companies to do? Their stated position is that the Florida case was an aberration, and that their stock prices will recover after they have won a few more cases. But Mr Black thinks they are wrong. "I worry that they are going to lose another case at some point. It might take 10 more, but they are going to lose again, and their stock prices will never get back to where they should be."

In Mr Black's view, the industry should be looking for a deal with Congress giving it immunity from all litigation. In return, the industry would accept regulation by the Food and Drug Administration and pay a fixed annual sum to pay for smokers' healthcare costs and anti-smoking campaigns.

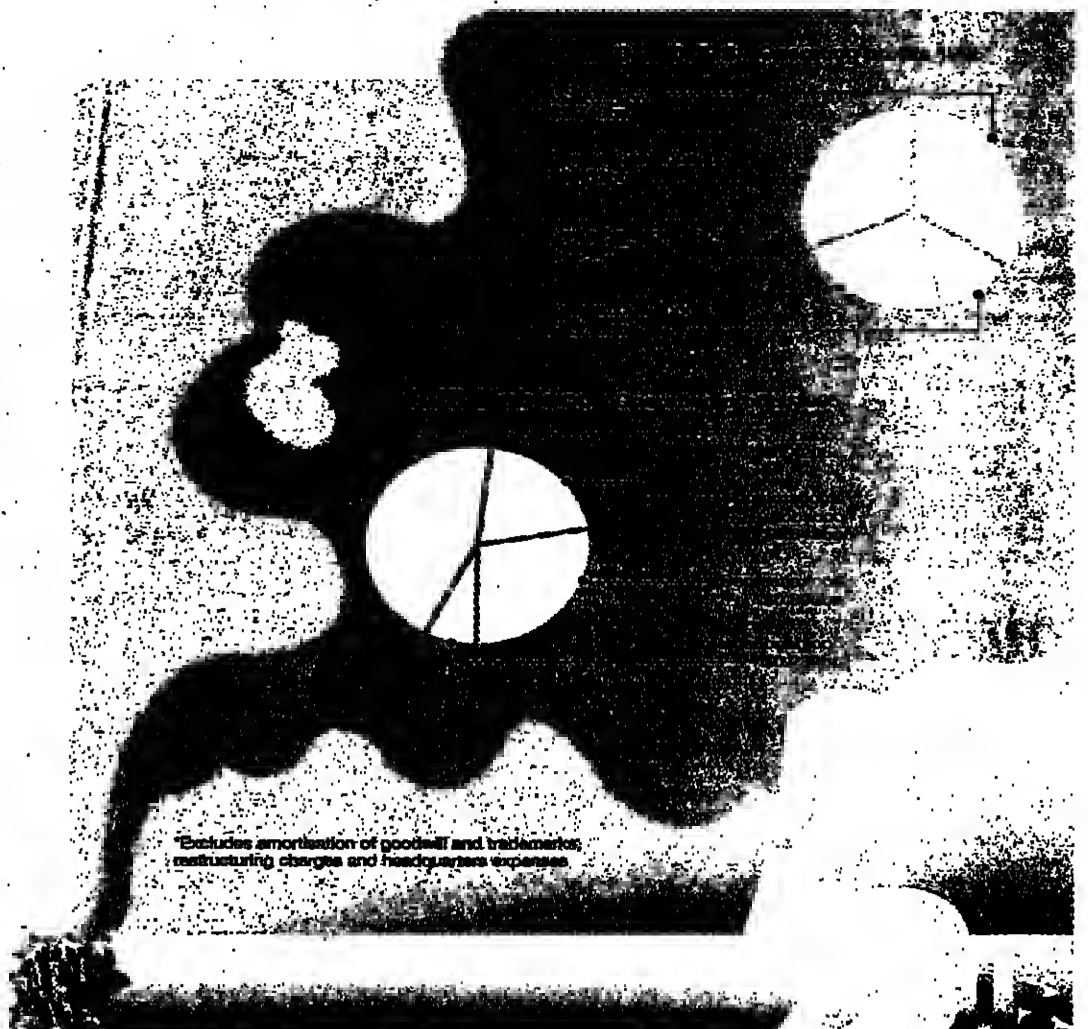
A 25-cent increase in the price of a pack of cigarettes would yield $6bn a year to pay into some sort of fund, Mr Black says – probably without hitting the industry's profits much. "My view is that if you could come up with some kind of legislative solution that put all this litigation behind them, the tobacco companies would be nuts not to take it."

One idea for such a deal has recently been circulating among anti-tobacco lobbyists, proposing that the industry might pay between $6bn and $10bn a year to settle a range of claims including lawsuits that have been filed by 13 states. Philip Morris rejected the idea outright, and RJR Nabisco dismissed it as "completely unrealistic".

Earlier this year, however, Mr Steven Goldstone, RJR Nabisco's chairman and chief executive, said that the tobacco industry did not have "such a fight-to-the-death mentality that it would ignore eminently reasonable solutions" to the litigation problem. Last week RJR Nabisco said this remained its position.

Mr Richard Kluger, author of a definitive history of the US tobacco industry, says the main obstacle to the search for a solution is the US presidential election. The tobacco companies, he says, are holding back in the hope of a win by Mr Bob Dole, the Republican candidate, because he and his party are seen as more sympathetic to the industry.

But if Mr Clinton is re-elected, Mr Kluger says, it is not inconceivable that the tobacco companies will be driven to the bargaining table. "What is plausible the day after election day is different from what is plausible today," he says. "And I think a deal is plausible."



*Excludes amortisation of goodwill and trademarks, restructuring charges and headquarters expenses

The doomsday scenario: tobacco litigation

How lawsuits could hit the US tobacco industry

Number of smokers born [illegible] 1951*	18.6m	
Incidence of lung cancer	10%	
Number of potential [illegible]	[illegible]	
Proportion making it to trial	20%	
Number of verdicts [illegible]	62,000	*Only those born before 1951 could legally have started smoking before health warnings appeared on cigarette packs in 1969
Average damages per verdict	$1.2m	
Net present value	$25bn	**Assuming a 10 per cent discount rate for claims stretching into the future

Source: Gary Black of Sanford C. Bernstein

· OBSERVER ·

Lebed's little helper

■ It's a dangerous business, being a Russian hack. Since 1994, at least 18 journalists have been assassinated, by (it's widely assumed) those whose dirty secrets they revealed.

That makes it all the more commendable that the eminent journalist Alexander Minkin has continued in his madcap pursuit of uncomfortable truths.

Long one of Russia's most outrageous – rivals would say outlandish – journalists, Minkin recently alleged that some of Boris Yeltsin's former top aides were linked to organised crime, a scandal still reverberating round the Kremlin. The iconoclastic scribbler has now formed an unlikely alliance with Alexander Lebed, President Boris Yeltsin's tough guy national security adviser.

Yet perhaps they don't make quite such an odd couple as first appears. The former paratroop general may not be overly fond of what he yesterday called "democratic mutterers", but he does share Minkin's love of tilting at the establishment.

The latest target of Minkin's ire is prime minister Victor Chernomyrdin, who, suggests Minkin, is doing everything possible to destroy Lebed's credibility in the battle to succeed Boris Yeltsin.

"Chechnya . . . is no more than a card in a pre-electoral game," Minkin fumed this week. "For the sake of victory candidate Chernomyrdin foils peace in Chechnya, condemns soldiers to death, and in so doing feels himself to be a democrat and a patriot."

All of which, Chernomyrdin's supporters might argue, is ridiculously unfair. But wonderful hackery, nonetheless.

Cole black spot

■ Nice to see that the voice of Harrods, the London shop – Michael Cole, bag carrier-in-chief to Mohamed Fayed, the new owner of *Punch* magazine and other assorted luxury items – cares so much about customer relations.

A letter from Cole has just appeared in the New York Times travel section, in response to an earlier letter from one Stanley Nehmer.

Nehmer protested at his wife having to spend £1 to use the Harrods toilet, particularly after she had spent the equivalent of $170 in Harrods.

In reply, Cole writes: "Mr and Mrs Nehmer will be pleased to know that, in light of their complaint, Harrods has changed its policy. Since June 27, any customer who spends £100 or more may use the lavatories free of charge upon presentation of the sales receipt."

Surely there's scope for some imaginative marketing here. What about a sliding scale? For £200 you might get to carve your name on the loo door, à la *Punch*'s famous dining table at which it used to entertain its guests. Spend £500, and a little wall plaque with one's name on could be erected above the wash basins.

Spend £1,000, and you even get to shake Cole's hand . . .

Bit of a wild card

■ News that Pope John Paul II's 1975 Ford Escort – in storage since 1978, when he became Pope – has just been sold for $102,000 reminds Observer of the following, almost certainly untrue tale.

The Pope lands at Heathrow airport en route to an important meeting in Birmingham. Already very late, he hails a black taxi. But the driver refuses to exceed the speed limits, so half-way up the M6 the Pope tells the driver to get in the back and let him drive.

Bombing along at 100mph, the Pope is soon spotted by a police car, which swings into action, blue light flashing.

As the police draw alongside the taxi, they notice who's driving and report back to base. "He's breaking the speed limit – book him!" says their superior. "But we can't, it's someone really important," say the chasing policemen. "What do you mean? Is it the Queen?" asks HQ. "No, it's someone much more important than that", say the police in the car, desperately trying to keep up with the Pope.

"More important than the Queen? Who is it?" asks the superior officer back at base. "We don't know who it is. But it must be someone *really* big – he's got tha Pope driving him."

Steel attention

■ Tempus fugit. It's less than 50 years since the Soviet dictator Joseph Stalin died, but he's already a forgotten creature as far as many Ukrainian schoolchildren are concerned.

This amnesia is perhaps forgivable in youngsters, even though their grandparents – along with others in the 15 former Soviet states – were once required to chant "thank you, Stalin, for our happy childhood".

But history gets re-written fast these days. In a survey of 200 children aged between 9 and 14 in the city of Khmelnitsky, only half were able to pinpoint Stalin as the man who once led the Soviet Union. Thirteen had never heard of him, 11 said he was a pop star, 31 got it half right – they thought he was a famous executioner.

The Financial Times

100 years ago

The Louisville Legend
Persistent rumours have been circulated with regard to trooble in connection with the Louisville and Nashville; and, as usual, when vague reports of this kind are started, it was not long before they crystallised into talk of a Receivership. It was easy to work such a rumour, because unfortunately in the existing state of public opinion no stock in the whole list of American Railroad securities is beyond suspicion of this kind, and when a Company like the Louisville has failed to pay a dividend on its Ordinary stock for a coupla of years or more, and is not likely to pay one for some time to come, such a company becomes the focus of Receivership talk, and it is Small wonder if people begin to grow nervous.

50 years ago

NY Three Hours Nearer
Advertisement: "Nine Pan American Clippers leave London Airport, Heathrow, for New York every week. By using England's newest airport, less than an hour's drive from London, the trip takes three hours less than previously. This is only a foretaste of the service that Pan American World Airways offer travellers to America and 46 other lands. The famous Pan American Clippers have flown for over 18 years."

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Unions warned of threat to survival unless costs are cut

Lufthansa urges wage freeze

By Wolfgang Münchau in Frankfurt

Mr Jürgen Weber, the chairman of Lufthansa, has called for a wage freeze and longer working hours in an attempt to ensure the German airline's future.

Mr Weber warned that Lufthansa's long-term survival was at stake unless it brought costs under control. "If we don't want to make losses again, we have to do something about our personnel costs," he said. "Otherwise, I can calculate right now, when we go bust at what ticket price."

He also suggested that the company would increase its number of franchising partners – "just like McDonald's".

Mr Weber's comments, published in an advance release of an interview in tomorrow's edition of Stern magazine, are yet another indication of the commercial and financial squeeze on the airline. This year's first-half pre-tax profits fell 37 per cent to DM119m ($80m), partly because of price cuts by competitors.

Mr Weber's remarks are likely to set him on a confrontation course with trade unions. A chief negotiator for one of two white-collar unions at Lufthansa yesterday forecast a "hot autumn" unless management changed course.

Mr Weber said the deteriorating competitive situation required a wage freeze or even a pay cut. "How could it be otherwise, since we get less and less money for our tickets."

He also wanted to discuss working hours and more flexible working arrangements, "otherwise we'll quickly get into survival problems".

He added: "It can't be that an employee in Germany has an average of eight weeks' holidays and works less than 40 hours a week."

Mr Weber said unprofitable routes might be handed to franchise partners, which would use the name and the logistics of Lufthansa but would employ their own staff without being bound by Lufthansa's wage agreements.

Mr Michael Tarp, the chief negotiator in forthcoming wage talks for DAG, the white-collar union, said he wanted an "alliance for jobs" in which he was prepared to compromise on pay and conditions in return for specific job guarantees. But he said Mr Weber's threat of passing existing routes to franchise partners operating outside union control was unacceptable. "The mood is not good, and one can sense that we are moving towards a hot autumn," he said.

Fischler denies campaign of disinformation over BSE

By Caroline Southey in Brussels

There were plenty of fireworks as the European parliament's inquiry into BSE got under way yesterday, but most of them went off with a whimper rather than a bang.

Expectations had been high. Press coverage earlier this week of leaked letters suggesting the European Commission had attempted a cover-up of BSE, or mad cow disease, in the early 1990s guaranteed a packed committee room.

The probe was prompted by a leaked internal Commission memorandum last month claiming that the European Union's standing veterinary committee decided in 1990 that it was necessary to "minimise the BSE affair by using disinformation". This was followed by leaked letters this week revealing that a top civil servant in Brussels sought to limit discussions about BSE.

The Commission's defence yesterday was left to Mr Franz Fischler, the agriculture commissioner, who devoted his lengthy delivery to a chronology of meetings and decisions dating back to 1989. His main argument centred on how much scientific information was available to the Commission at the time and whether it could, or should, have acted more decisively.

His response to the charge that the Commission attempted to keep vital information from the public was curt. "I don't know of any campaign of disinformation by the Commission," he said.

Mr Reimer Böge, a German MEP elected to chair the inquiry, summed up its remit: to uncover any maladministration and examine the transparency of the policy to combat BSE; to look at controls on the export ban on British beef and measures to protect public health; and how markets have been affected. All to be completed within three months.

"If we can completely shed light on everything that has taken place, only then will we restore confidence in the EU institutions," he said.

But for the most part committee members, variously flying their national or party flags, saw the hearing as an opportunity to deliver abuse rather than ask probing questions. The Commission was accused of lying while EU scientists were pilloried as puppets of the member states.

"There has already been too much abuse by too many people," said Mr Johannes Voggenhuber, an Austrian MEP. "We have heard about what was happening through the press. That is scandalous in itself," he said, adding that the committee would have to be "very aggressive" to satisfy public concerns.

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Deutsche Bank plan

Continued from Page 1

would be no loss of confidence. "No investor has suffered, and I hope people will pay attention to that," he said.

Investigations into three funds centre on the valuation of unlisted securities in the Scandinavian market that Mr Young bought.

These include large holdings in several relatively unknown health care and technology companies.

Some of the securities in the funds were acquired through a broker called Fiba Nordic Securities, which also provided some valuations. Other valuations were provided by a London-based broking firm called Ice Securities.

The unlisted securities, which formed an unusually high proportion of Mr Young's fund, helped it achieve a stunning investment performance, but it deteriorated rapidly this year. City regulations do not require fund managers to have unlisted securities valued independently.

EU threat to bar US maize

By Alison Maitland in London

The European Union is threatening to block US exports of a genetically engineered type of maize, in a move which could hit all US maize sales to the EU and provoke a fresh trade row.

The maize has been licensed in the US and Canada, but approval by the European Commission is being held up by concern over its implications for animal and human health and the environment.

The modified maize looks indistinguishable from ordinary maize. Tests to examine the DNA in each load imported are regarded as impracticable.

The potential dispute follows another row over the EU's ban on hormone-treated beef, introduced in the late 1980s. The US and other countries have lodged complaints with the World Trade Organisation against the EU's ban.

The maize was developed by Ciba, the Swiss-based chemicals group, to be resistant to the European corn borer, a devastating crop pest.

But it contains another gene which UK authorities fear could confer antibiotic resistance to animals that eat it unprocessed. Austria, Denmark and Sweden are worried about the environmental impact of the modified maize.

It is the first time a genetically engineered food product has failed to win backing from a majority of EU member states, and their objections have taken Ciba and the US authorities by surprise.

Commission officials said yesterday that the US would not be able to export the genetically modified maize to the EU while Commission approval was withheld.

"If the Americans decide to go ahead [and export], we're entering into an area of trade disagreement," said an official.

EU scientific committees reviewing the grain's safety are not expected to present their findings for three months. The US harvest begins next month and exports to the EU normally start in November. About 0.6 per cent of the US maize crop has been planted with the new grain. US sales to the EU were worth $500m last year.

A US agriculture official in Brussels admitted that the delay over EU approval could be a big problem. "Exhaustive scientific tests have been done and there's no question about its scientific safety," he said.

Saddam defies US

Continued from Page 1

retaliate by taking western or UN personnel hostage, in a repeat of the "human shield" operation he staged during the run-up to the Gulf war.

Mr Massoud Barzani, the Kurdish leader who requested help from Baghdad in his struggle with Mr Talabani, yesterday echoed Mr Saddam's defiance of the US. "I never had confidence that the US would back me against Saddam," he declared.

Mr Barzani said US "procrastination" in mediation efforts between his Kurdistan Democratic party and Mr Talabani's Patriotic Union of Kurdistan had encouraged the PUK to seek Iranian support. But Mr Talabani denies he is backed by Iran.

THE LEX COLUMN

Broken trust

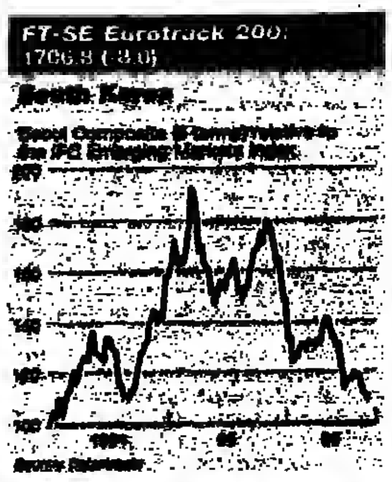
It has been a bad week for the UK fund management industry, with the great names of Jardine Fleming and Morgan Grenfell both tarnished by "irregularities" within certain funds. But while several regulatory concerns are raised, there appears to be little cause for panic. Investors should be no worse for the fund managers' actions, since in both cases the companies are bearing the full cost. That is the advantage of having a fund manager with a big balance sheet.

Of course, not every fund manager has a parent as rich as Deutsche Bank standing behind it. So if, as seems possible, no regulations have been broken, they will probably need to be tightened up. The main focus should be on a loophole which puts no limit on how much unit trusts can invest in unlisted shares, provided they have been bought within 12 months and are due to be listed on an approved exchange. This is absurd. Not only is the valuation of such shares open to question, which is why MG's three funds had to be suspended; but unit trusts require liquid portfolios to raise funds for unit redemptions.

The answer is to treat such "pre-listed" shares like other non-quoted securities and put a limit on how much unit trusts can invest in them. After all, unit trusts are targeted at relatively unsophisticated retail investors – not professionals.

At least MG is planning to do the decent thing by buying all potentially over-valued unlisted shares at their previously-stated asset value. This is likely to require up to £200m in cash. But MG should also state that it will use its balance sheet to buy in units if there is a flood of sellers. Otherwise, unit sales would have to be met with a fire sale of assets. That would spell losses for investors and even greater damage to MG's name.

FT-SE Eurotrack 200: 1706.8 (-8.0)



South Korea

South Korea's decision to inch up the ceiling on foreign share ownership limits is a bit of much-needed deregulation. But if the government hopes it will attract a wave of overseas money to buoy the country's depressed stock market, it is likely to be disappointed. The Seoul bourse has been one of Asia's worst-performing markets this year as Korea's economic problems – slowing growth, rising inflation and a ballooning current account deficit – have become clear.

Corporate earnings have fallen by more than 50 per cent in the first half of 1996, owing to Korea's heavy dependence on cyclical industries like computer chips, chemicals and steel. Moreover, investors face a flood of new paper this autumn. Only yesterday, the government gave permission for another clutch of flotations, led by Hyundai's semiconductor arm, and analysts expect $3½bn worth of initial public offerings to be squeezed into the rest of this year.

Foreign investors would do well to stay on the sidelines.

Express Newspapers

One message from yesterday's shake-up at Britain's Express Newspapers is that the titles are not going to be sold quickly. That may disappoint investors hoping for a profitable sale of the papers following this year's merger between United News & Media, their parent, and MAI.

Still, it is hard to fault what Lord Hollick, who runs the merged group, is trying to do. The two titles have been in decline for a generation. A revamp, in which £10m saved from job cuts and reorganisation are ploughed back into improving the papers, may just reverse the trend. If it does, somebody may even be interested in buying them.

Spectrum taxes

If Britain's opposition Labour Party is serious about a "spectrum" tax on broadcasters, pretty chunky sums of money could be redistributed after the next election. Assume a 14 per cent tax on advertising and subscription revenues, which would raise roughly as much as broadcasters now pay under their cash bids. Mr Rupert Murdoch's BSkyB, which currently pays nothing, would be the biggest loser: the satellite broadcaster would have had to fork out £134m last financial year, more than half its pre-tax profits. By contrast, the ITV terrestrial broadcasters would be winners: they would have paid £237m last year instead of around £400m.

Superficially, the idea of charging all broadcasters a similar tax may look fair. But the economic logic for a cross-the-board spectrum tax is weak. Charging for using the radio waves makes sense only when they are scarce. While the terrestrial airwaves are jam-packed, satellite spectrum is relatively uncluttered.

If Labour really wanted to promote rational use of the spectrum, it would leave BSkyB out of the net but include mobile phone groups like Vodafone and Orange, which also hog the terrestrial airwaves. By slapping a 14 per cent tax on them, it could raise several hundred million pounds.

Of course, there is another justification for taxing BSkyB which has nothing to do with spectrum scarcity. Labour may just feel the company, which has a near monopoly on pay-television, is getting too powerful. But it should then call its levy a monopoly, not a spectrum tax.

Jefferson Smurfit

Jefferson Smurfit is one of the carnivores of the pulp and paper world. It makes a virtue of buying at the bottom of the cycle. And it has a strong balance sheet with rapidly falling borrowings. But even Smurfit claims it cannot spot value in pulp and paper assets at the moment.

That should give investors pause for thought. So far this year, share prices in the sector have risen sharply as bulls have been prepared to look through a sharp fall in 1996 profits to better times ahead in 1997. That scenario looks increasingly optimistic. Even Smurfit, with its global spread and highly integrated operations, will be hard pushed to increase earnings in 1997. Most of its more cyclical competitors are likely to see them fall for a second year in a row. On that basis, continued outperformance for the sector looks hard to justify.

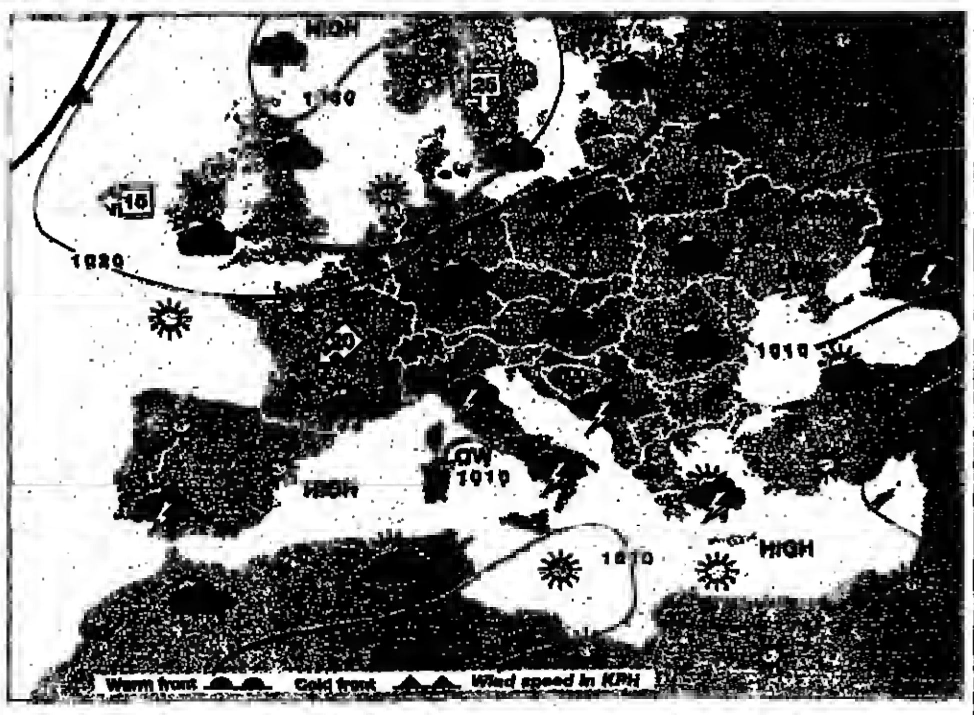
FT WEATHER GUIDE

Europe today

North-western areas will be cloudy with sunny spells. A frontal zone will move from the Benelux towards the Baltic states, bringing cloud and light rain. Low pressure over the Mediterranean will cause frequent thunderstorms in Italy and the Adriatic. Greece and the southern Iberian Peninsula will have isolated thunderstorms. Afternoon temperatures will range from 15C-18C in Scandinavia, 20C-25C from France to eastern Europe and 25C-30C in Spain, Greece and Turkey.

Five-day forecast

The Balkans and Mediterranean will have frequent thunderstorms. High pressure over the North Sea will bring sunny spells to north-west and southern Europe, while slightly cooler air will gradually move in from the north.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius											
Abu Dhabi	fair 39	Beijing	fair 28	Caracas	fair 33	Faro	thund 25	Madrid	sun 29	Rangoon	cloudy 32
Accra	fair 27	Belfast	fair 21	Cardiff	fair 20	Frankfurt	cloudy 21	Majorca	sun 25	Reykjavik	rain 13
Algiers	fair 27	Belgrade	cloudy 20	Casablanca	cloudy 25	Geneva	shower 19	Malta	fair 29	Rio	fair 28
Amsterdam	sun 21	Berlin	cloudy 20	Chicago	fair 26	Gibraltar	thund 23	Manchester	fair 20	Rome	thund 28
Athens	sun 30	Bermuda	cloudy 30	Cologne	fair 21	Glasgow	fair 25	Manila	shower 33	S. Frsco	sun 24
Atlanta	fair 29	Bogota	cloudy 20	Dakar	cloudy 36	Hamburg	fair 20	Melbourne	shower 16	Seoul	fair 28
B. Aires	fair 15	Bombay	shower 32	Dallas	fair 34	Helsinki	cloudy 17	Mexico City	shower 23	Singapore	shower 29
B.ham	fair 21	Brussels	sun 20	Delhi	cloudy 34	Hong Kong	fair 32	Miami	fair 31	Stockholm	fair 18
Bangkok	rain 35	Budapest	shower 20	Dubai	sun 39	Honolulu	fair 32	Milan	rain 17	Strasbourg	fair 21
Barcelona	fair 25	C.hagen	fair 19	Dublin	fair 20	Istanbul	sun 27	Montreal	fair 23	Sydney	fair 19
		Cairo	fair 35	Dubrovnik	thund 28	Jakarta	shower 32	Moscow	fair 25	Tangier	shower 25
		Cape Town	fair 18	Edinburgh	cloudy 20	Jersey	sun 19	Munich	cloudy 19	Tel Aviv	fair 32
						Karachi	cloudy 33	Nairobi	fair 24	Tokyo	shower 28
						Kuwait	sun 45	Naples	thund 26	Toronto	fair 25
						L. Angeles	sun 25	Nassau	shower 32	Vancouver	fair 19
						Las Palmas	fair 27	New York	fair 31	Venice	shower 23
						Lima	cloudy 19	Nice	shower 24	Vienna	shower 18
						Lisbon	shower 27	Nicosia	sun 32	Warsaw	fair 21
						London	fair 22	Oslo	sun 19	Washington	fair 29
						Lux.bourg	fair 21	Paris	sun 23	Wellington	shower 12
						Lyon	fair 22	Perth	shower 18	Winnipeg	fair 20
						Madeira	fair 25	Prague	cloudy 18	Zurich	shower 18

مكبرا من الاصل

هكذا من الأصل

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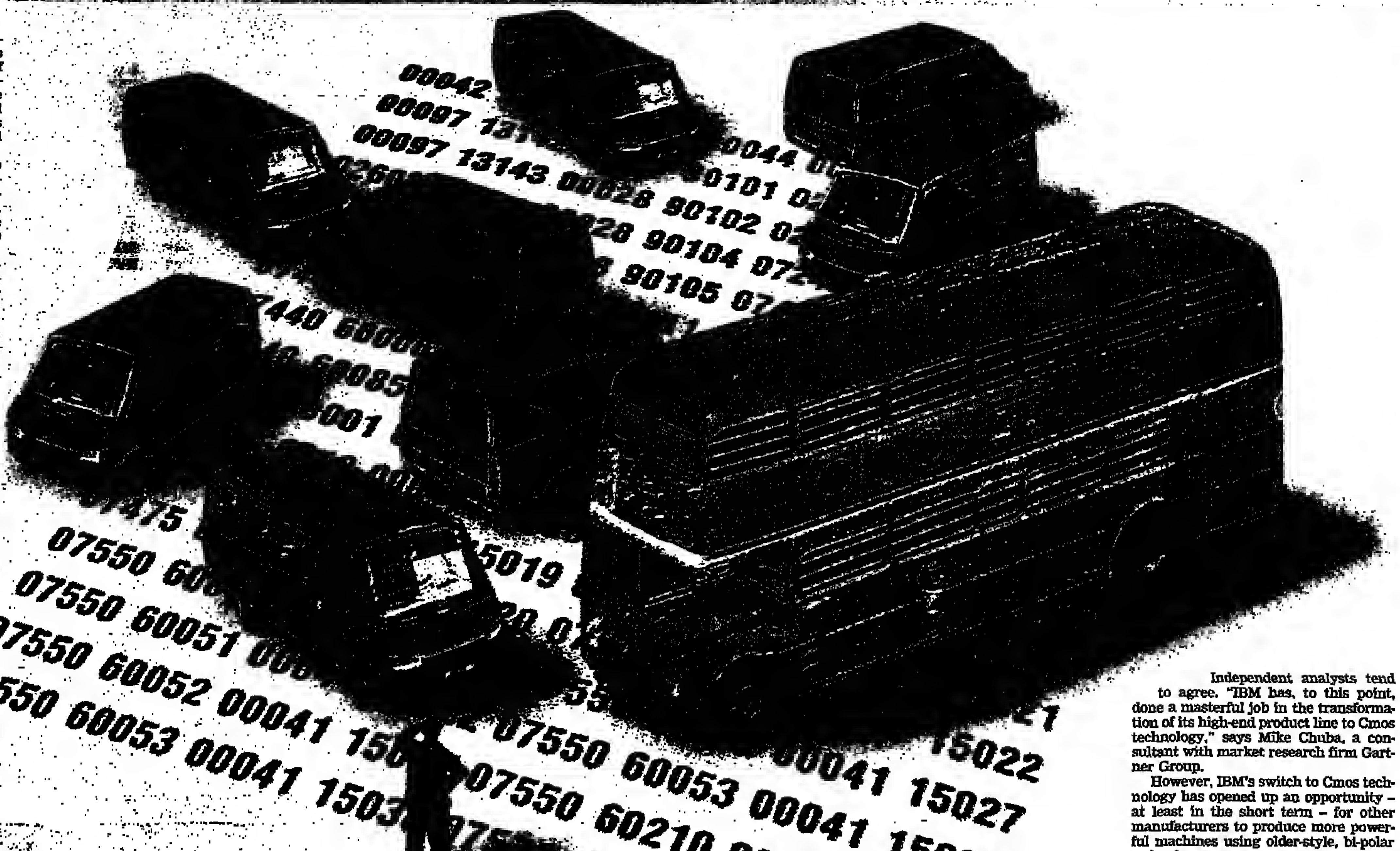
Information Technology



Have mainframe computers missed the bus?

Despite the rejuvenation of the mainframe market over the past three years, some still question whether the recent upturn in sales represents a sustained market trend, or simply a statistical blip. Paul Taylor reports

A few years ago, the mainframe computer business looked as if it was falling off the deep end. The big mainframe systems that made International Business Machines and other early computer manufacturers great were, like the dinosaurs, destined for extinction.

Low-cost, more versatile, desktop personal computers and powerful client-server networks had stolen the corporate data processing market and IBM, which still dominated the mainframe industry with its flagship system S/390 machines, was in crisis.

As losses mounted, IBM's workforce was cut in half and Lou Gerstner was brought in as chairman to rescue "Big Blue" from the scrap heap. Then reality crept back into the equation.

Despite all the fuss made about client-server computing, open systems and the PC revolution, the traditional mainframe is still the dominant workhorse for corporate information systems, particular those in the financial services industry.

Indeed, far from disappearing, there has been a resurgence of interest in mainframe computing over the past few years as the costs of mainframe power have tumbled and the real strengths of large computing systems in terms of scaleability, reliability and low running costs have been better appreciated.

"Businesses are taking a much more balanced view," says David Hammond, marketing communications manager for IBM S/390 business in Europe. "Demand for mainframes has picked up quite considerably over the last 18 months."

For the leading mainframe vendors, which include "plug-compatible" manufacturers such as Amdahl and Hitachi Data Systems, together with US-based Unisys and Fujitsu and NEC of Japan which have developed their own proprietary systems, this is a welcome respite after years of battling against a torrent of negative comment and publicity.

The change in sentiment is, however, only a matter of degree – even the most ardent mainframe promoters accept that there will be no going back to the mainframe's heyday in the 1970s when the traditional mainframe based on proprietary technology and custom-made chips was the unchallenged king of corporate data centres.

In the mid-1980s, the arrival of mass-produced, low-cost PCs built with off-the-shelf components, and the shift to open systems – usually Unix-based client-server systems – changed the corporate computing landscape for good.

Since then, mainframe machines – known more recently as "enterprise servers" – have had trouble shaking off the image of being over-priced, inflexible and "old-fashioned".

Typically, the debate has pitched centralised IT departments against end-users, and technology start-ups against older, more established, IT vendors.

Inevitably, in the race to shift from mainframe computing to more flexible desktop PC-based systems – a process which was dubbed "downsizing" – many of the management problems and costs associated with distributed computing have been overlooked, while the mainframe's limitations have sometimes been exaggerated.

"Before 1992, the market for mainframe machines had behaved in a fairly predictable and stable manner," says John Roberts of Amdahl, one of the leading "plug-compatible" mainframe manufacturers.

The price-performance ratio of mainframes declined by about 16 per cent a year, the installed base of S/390 machines grew more than 30 per cent almost every year, and the amount of computing power shipped, generally measured in terms of Mips (millions of instructions per second), increased by an average of 35 or 45 per cent a year.

IBM accounted for 80 per cent of the worldwide market.

But the early 1990s saw an abrupt reversal. In the S/390 market. Shipped Mips fell in 1992, and again the following year, resulting in price cuts of more than 20 per cent the first year and 40 per cent in 1993 – and predictions from the pundits that the mainframe was dead.

However, the following year, mainframe sales bounced back.

Not only did IBM's shipments increase by 20 per cent to 160,000 Mips, but the price decline slowed to 20 per cent and both IBM and Amdahl, which boosted shipments by 34 per cent that year, reported a resurgence in mainframe profitability.

Equally importantly, 1994 marked a key mainframe technology turning point.

Although most of the shipments that year were of older-style machines, based on custom-made bi-polar technology, IBM began the migration to lower-cost complementary metal-oxide semiconductor (Cmos) -based processors of the type used in standard PCs.

Cmos-based machines, now adopted by most mainframe manufacturers, contain about 80 per cent fewer parts than their bi-polar predecessors; require about 90 per cent less energy; need much less system cooling; and take up about a third of the floor space.

From a user perspective, Cmos-based mainframes are cheaper to buy and run.

In addition, IBM has developed another innovative technology called parallel sysplex which enables a series of Cmos-based mainframes to be coupled together but still appear to the user as a single system.

"Customer acceptance of our Cmos and Parallel Sysplex technologies is undeniable – and growing," claims Linda Sanford, general manager of IBM's System/390 division. "In fact, we ended 1995 with 50 per cent of our S/390 shipments being Cmos. Our Cmos technology is helping turn S/390 into a growth business."

Independent analysts tend to agree. "IBM has, to this point, done a masterful job in the transformation of its high-end product line to Cmos technology," says Mike Chuba, a consultant with market research firm Gartner Group.

However, IBM's switch to Cmos technology has opened up an opportunity – at least in the short term – for other manufacturers to produce more powerful machines using older-style, bi-polar technology.

In particular, Hitachi Data Systems, while also producing a range of Cmos-based machines, has had trouble keeping up with demand for its high-end Skyline series. These machines are based on a novel technology called Ace which combines most of the speed and performance advantages of bi-polar microprocessors with the cost and low energy consumption advantages of Cmos.

HDS claims the Skyline series is twice as powerful as an equivalent uniprocessor machine; is more efficient than parallel sysplex in terms of utilisation rates; and can deliver faster response times.

"HDS believes that Cmos cannot deliver the power and performance that some customers require," says Steve Jaques, UK managing director, explaining the group's strategy.

Despite the rejuvenation of the mainframe market over the past three years, some still question whether the recent upturn in sales represents a sustained market trend, or simply a statistical blip. There is, however, some evidence from mainframe users and recent purchasers that they view the upturn as a long-term trend.

A survey conducted by Trish Information Services revealed that S/390 mainframe users believe the rehabilitation of the mainframe is permanent because:

Continued on Page 2

■ Interview with Joseph De Feo • By Paul Taylor

A spider's web for the banking sector

The influence of network computing and other technologies extends into all aspects of the industry. Barclays' director of group operations and technology believes it will have a profound effect on traditional banking. 'It's going to change the whole way business is conducted,' he forecasts

Joseph De Feo has built up a formidable reputation as an effective business leader and banking visionary since he joined Barclays Bank as director of group operations and technology nearly seven years ago.

American-born Mr De Feo, who joined Barclays from merchant bankers Morgan Grenfell after spells with both Goldman Sachs, the Wall Street investment bank, and Chase Manhattan, the third-biggest US bank, is also widely regarded as one of the banking industry's most outspoken, and influential, IT users.

He believes the main issue facing the banking industry is the impact of electronic delivery mechanisms and the changes which will be wrought by introducing electronic delivery to replace physical branch delivery in retail banking services.

But although he believes changes in retail banking may be the most visible, he says the impact of the broader capability of networks and networking will be just as dramatic on the wholesale and investment banking business.

"It is engendering a situation in which there will be a wholesale reconstruction of the value chains in the business model for the industry, where you could envision networks of specialist companies, each focused on a specific area – say research, analytics, trading, investment banking, distribution...

"This sort of change has actually occurred in other industry sectors – the commodity end of the business is being concentrated into a smaller number of global producers, and the rest of the business is being fragmented among many thousands of very focused and specialised players."

He believes that, faced with such challenges, banks will adopt different strategies. Some, such as JP Morgan in the US, will quit the "manufacturing" end of banking, and sub-contract out the processing.

Others will specialise in transaction processing, in much the same way that National Westminster Bank is providing the back-office capability for supermarket chain Tesco's recently-launched loyalty card in Britain.

Overall, he thinks the number of jobs in retail banking will fall as capital is substituted for labour. "I think the aggregate labour content in all aspects of the business will go down, but not at the same rate as it will in retail banking."

In Britain, he warns, the adjustment will be disproportional, "because we hesitated on the capitalisation of the automation of the branch networks."

Delaying automation of the traditional branch networks could also make it more difficult for the banks to respond to new and often lower-cost competitors, including retailers such as Marks and Spencer and Virgin which do not have the same infrastructure costs.

In addition, he notes, it takes time to respond to new competition and new delivery channels. "You still have to support the branch network. The more inefficient that branch network is, the higher the burden of cost – so you are really stuck if you have huge costs."

Unlike some of his colleagues, however, Mr De Feo does not believe that bank branch networks will disappear overnight. "When I first joined the group, lots of people were saying we need to cut the branch network in half in the long run. It was a real big issue – we were obsessed with the numbers of branches. I kept saying to them that you have to start on a more rational base and judge what is effective for the group to have as a physical branch distribution network."

While he believes the bank's branch network is still costing a lot more, probably five or six times more, than it ought to, he argues that the decision on an individual outlet "could change very dramatically if the branch was much cheaper to keep open."

"We have not closed nearly as many branches as people had originally thought we were going to, because the cost of us having an outlet open is much lower than many other banks," he says.

Barclays has cut the cost of its branches "by reducing the labour content, by having more customer volume go through each branch, so that the effectiveness and efficiency of an outlet is improved."

He notes that in the US, "if you count electronic branches, there are more branches opening – they are not closing branches... the individual cost of those locations is a fraction of what it is in this country."

Even with the advent of electronic purses and smart cards, Mr De Feo believes there will still be a need for physical bank outlets. "We really need physical bits of paper in our hand to do business... so it is going to take a long time to get rid of the physical locations; probably 25-30 years." Ahead of that, he believes there could actually be an increase in bank outlets. "I would predict that you will see an increase in penetration in supermarkets of electronic branches, or [branches] where there is one person in this country.

"I think you will see more express branches like we have just put up in Tunbridge Wells, which will either be semi-manned or unmanned." He thinks these low cost "convenience branches" will be supplemented by telephone banking, or banking via a digital television or via personal computer.

"We had better do it because we are going to struggle strategically to keep our branch identity, the way things are going," he says. "We have got strong branch identity in the industry, but that could be usurped very quickly, especially for the traditional products because we don't satisfy primary needs."

Mr De Feo makes his point using a potential car buyer as an example. "If you need to borrow money for a car, it's not because you want to borrow money, it's because you want a car." If, as is beginning to happen, car manufacturers bundle in the financing, "why would you bother to go to a bank?"

If the carmaker has a good credit rating, it can raise money cheaper than the banks – so it is sensible for the carmaker to arrange the finance because it can make an additional small profit on the loan.

Like other large financial institutions, Barclays is a big IT spender. But does Mr De Feo think that the bank gets value for money?

"I think that in Barclays we are now getting to the point where we are – and it shows in our results, and in the recognition we are getting, and the way in which the business attitude towards IT has changed. The level of suspicion that IT was sort of a thing that was on its own, and spending money because they wanted more toys, is dissipating.

"If you look at the core businesses of the group, whether you are talking about BZW or the asset management business, we are now much more thoroughly integrated in terms of how technology is being used. We have still got a way to go because we are not on an appropriate strategic platform because the knowledge gap is still there and we need to understand better how these technologies are going to transform business.

Sophisticated banking IT systems, such as those used in credit behaviour scoring, knowledge-based techniques and corporate lending assessment, are now commonplace. "IT has improved the quality of our lending, our decision-making, our communication with our customers, because it is clearly more objective. It is more explainable; it is not like I turned you down for a loan because I don't like the look of you."

He believes the relationship between banks and the IT vendors has also changed. "It is a matter of choosing partners now," he says, "the functional differences are less significant in vendor selection than they used to be."

Mr De Feo argues that one of the biggest challenges facing the financial services sector is ensuring that the wide variety of legacy systems work together.

"That glue – how you get the network of these applications brought together – is extraordinarily important. Mr De Feo says that IT users need infrastructure standards which would allow different proprietary technologies to be brought together.

"The Internet offers some of it but the Internet is weak in systems management and security. The most important aspect of the Internet is that it has given a glimmer of what is possible with network-based computing.

"It is like a very weak light-bulb going on in an absolutely dark room, and what I worry about is that we will not be able to fulfil the promise because there are so many holes in the management and the security side of it.

"We are OK now because it is being used as an information dissemination vehicle, and an e-mail vehicle, but when we start doing serious applications using that technology it's all going to bubble to the surface and we're going to see the same sort of problems with the Internet as enterprises are having in gluing together computer systems that were built on IBM or Digital Equipment technology."

Eventually, Mr de Feo believes Microsoft will produce the "glue" to bind disparate systems together, but he cautions: "It is going to be very hard for Microsoft because it is going to push them into spaces they have never occupied before."

Similarly, he believes that the real potential of network computing will only be realised if it enters the commercial sphere. He says: "That will only happen if the financial services element is solved. We have got to get all that sorted out, so all of this has got to be brought together at some point soon, otherwise things will go into a slowdown until they get resolved.

"There are all sorts of initiatives to work on: the security, and work on the systems management, and so on. But the cohesiveness of those efforts is not apparent."

Ultimately he believes network computing and other technologies will have a profound effect on traditional banking.

"It's going to change the whole way business is conducted," he says. "The influences of all these technologies extends like a spider's web out into all aspects of the industry."

Mainframes on the bus

Continued from Page 1

● Centralised mainframes are more cost effective than distributed computing alternatives when management and support costs sre included.

● Mainframes offer greater reliability, availability, functionality and data security than distributed computing environments.

One respondent said: "We have had no success with distributed processing, it cannot handle the workload, is expensive to implement and lacks function."

Another said: "Client-server platforms are more expensive than people thought."

● The processing speed and capacity availabls in mainframe machines is significantly greater.

● For crucial applications, there is greater confidence in mainframe data integrity.

● The mainframe software market is mature and offers developers rich tools.

Few mainframe supporters would challenge the assertion that PCs and Unix workstations are still more flexible and faster machines for developing new applications.

However, IBM, Amdahl and other mainframs makers say there is now some evidence of "up-sizing" – using a distributed network to develop and test a new application, then moving it to a mainframe for commercial roll-out.

Ths Trish research suggested that 40 per cent of respondents were adding new applications.

Far from competing with client-server system designs, mainframe manufacturers also appear to have successfully positioned their machines as large-scale servers.

"Ths server role has been increasing dramatically," says Mr Roberts. "Seventy-seven per cent of our customers are using their mainframes in a client-server environment."

For large national companies, or multinationals in particular, the case for mainframe power remains compelling. "If you have a global customer base, you need mainframes," says Sam Osborne, industry director for finance and insurance for EDS, the US-based computer services group.

Ultimately, however, the strongest argument in favour of keeping the corporate mainframe has to be the cost of ownership. Once again, a number of studies in recent years has led to a reappraisal of the overall costs of different computer platforms.

Generally, these studies have confirmed that for organisations with 200 or more users, mainframes are considerably cheaper to run over a five-year period. "Not only are mainframes cheaper than the competition, but they are getting relatively cheaper every year, and the centralised control they offer best suits the need of most users," said the Xephon technology consultancy in a recent report.

In the financial services sector in particular, there is growing evidence that companies are choosing computer systems based on rational comparisons of the costs and benefits. Sometimes that will mean networked PCs; other times complex client-server systems.

But there will also be occasions when the new low-cost, flexible mainframe is the "right tool for the job."

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Focus: IT in financial services.
Software: Accounting packages.
Equity analysis: Software battle intensifies.

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■ Introduction • By Paul Taylor

Global finance sector maintains its IT edge

Financial service organisations are now managing and manipulating information

From Internet banking and multimedia kiosks to electronic trading rooms and risk management systems, the future of the global financial services industry is inextricably linked to information technology.

The financial services sector is already one of the biggest spenders on information technology – spending made necessary not just to reduce costs, but also to maintain an edge in an increasingly competitive market where new entrants and new channels to market are eroding traditional boundaries.

For example, in the insurance aector, Datamonitor, the market research firm, predicts that 95 per cent of the UK's largest insurance intermediaries will have direct operations by 1998. Datamonitor also believes that by 1998 some 70 per cent of insurance companies will have Internet sites.

The intensification of competition within the financial services sector reflects the deregulation of the industry whicb has attracted new entrants. Other factors are glnbalisation and technology which have swept aside barriers to entry and lowered the cost of doing business.

As a result, in order to thrive in the 1990s, financial service organisations are as mucb in the business of managing and manipulating information as managing and making money.

"Our industry is information based – it is absolutely essential – and the relationship of technology management, technology usage and business management is one of the critical skills," says Joseph De Feo, director of group operations and technology at Barclays bank.

"If people in financial services companies say they don't understand technology, or are afraid of technology, it is just like saying 'I am not qualified to do my job'," says Mr De Feo.

The fate of many financial institutions, as they gear up to face this new competition, will depend on the successful deployment of data processing resources, telecommunications systems and software.

"Ths financial services industry is faced with unprecedented challenges – increasing competition, a technology revolntion, a highly unpredictable economic and political climate, consumerism and rapidly evolving legislation,"

> Spending on IT is likely to be increased

said Andersen Consulting in a recent report*.

John Reed, chairman of leading US commercial bank Citicorp, has expressed concern that banks and securities firms risk being rednced to "a line or two of application code on a network." Such concerns are understandable given the competitive pressures that banks and other financial institutions now face.

"Financial services companies are trying to drive down or stabilise costs," says Ian Peackock, a consultant with Logica, the UK-based computer services gronp. "Another big area for them is systems integration."

"When the banking history of this century is written, the decade from 1990 to 2000 will be seen as the defining moment," said Price Waterhouse, in a recently published report on the challenge of virtual banking. "A new generation of non-bank competitors poised to harness new forms of technology could radically alter the structure of the traditional banking system as we know it. Today, opportunities are being exploited by software companies, consumer companies and even large and influential media owners. The threat to the traditional 'bricks and mortar' banking system is very real."

In America, US telecoms group AT&T became the second-largest card issuer in the world with more than 15m accounts in just five years. Ford Motor, which now generates 20 per cent of its US revenues from financial services, now positions itself in the UK as "the branchless bank".

Business Week magazine noted: "Banking is essential to a modern economy. Banks are not" – a view echoed by Bill Gates, chairman of Microsoft, who warned: "Banks are dinosaurs. Give me a piece of the transaction business and they are history."

Meanwhile, the IT specialists at Deloitte & Touche argue that "Technology will change the retail banking industry fundamentally in tha years to come." They believe that banks will lose their monopoly as centres for money transmission – in other words, the activity of transmitting money from one person or company to another will increasingly be carried out by a variety of competing providers.

In addition, distribution channels for retail banking products will proliferate. "Whereas in the past the bank branch was the only channel for distributing most financial services prodncts, in the future a number of different channels will continne to erode the branch's predominance," say Deloitte & Tonche. Finally they argue that the fully integrated bank will fragment into specialist categories.

Braxxon Technology, an IT management and systems consultancy, estimated recently that leading international banking institutions face a combined IT bill

of $4bn to replace their existing global trading settlement systems for bonds and equities. After a survey of large banks, Braxxon concluded that tha top 50 world investment banks would need a global investment of at least $80m each to replace existing settlement systems which have failed to keep pace with business and regulatory requirements.

The survey also revealed that 30 per cent of banking systems are more than 10 years old – and three out of every five banks have already started replacing their systems.

Financial institution spending on IT is also likely to be increased over the next few years in order to tackle issues such as the so-called millennium problem which affects older software, much of which is running on mainframe machines.

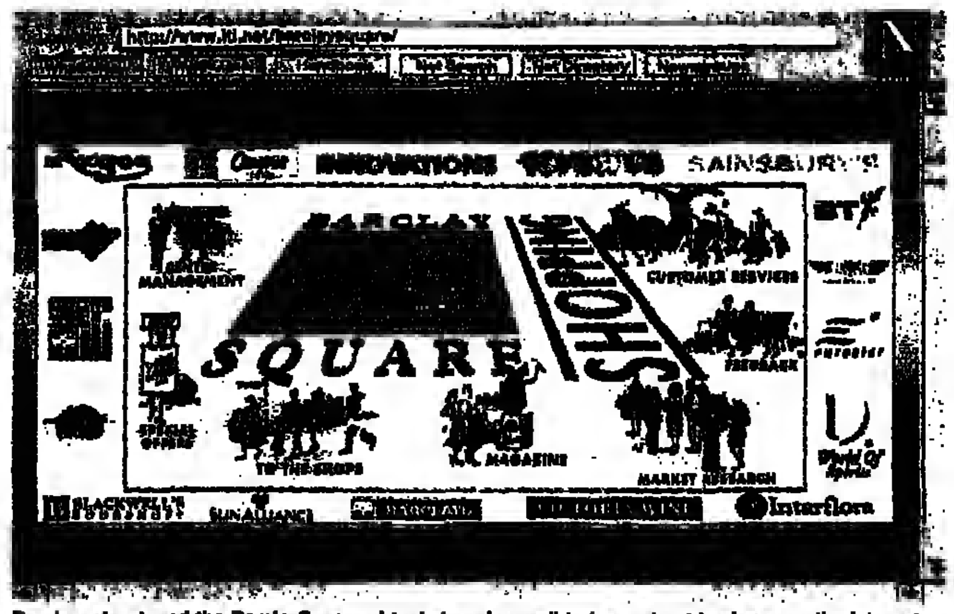
Ultimately, as the worlds of information processing and financial services collide, most financial institutions realise that they have little choice but to increase their IT expenditure while ensuring that they use technology as efficiently as possible to deliver their customers fast, flexible and competitively priced services.

**Financial Services in a Virtual World.*

■ Electronic commerce • By Paul Taylor

Towards a dream market

The Internet phenomenon has re-ignited interest in electronic trading



Barclays developed the BarclaySquare virtual shopping mall to learn about business on the Internet

For years, businesses have been dreaming of a glnbal electronic marketplace where they could interact and trade chaaply, quickly and securely with each other, with suppliers and with their customers.

Electronic commerce, they reasoned, would enable them to cut costs and improve efficiency by reducing paperwork, tailor their products and services more closely to customer requirements and improve their competitive position.

Many companies now routinely exchange purchase orders, invoices and other data electronically using EDI (electronic data interchange), as well as transferring funds electronically.

The business case for electronic commerce is compelling. For example, more than 60bn cheques a year are processed in the US and Giga Information, the technology market research and consultancy firm, estimates that US companies spend about $250bn, or 5 per cent of gross domestic product, on processing commercial paper documents.

EDI has been around since the 1970s and remains the cornerstone of electronic commerce. According to Input, the market research firm, goods worth about $130bn were handled through EDI last year, and more than 100,000 companies now use EDI to conduct business. Nevertheless, the growth of EDI has been hampered because of issues such as system incompatibilities, the lack of global standards and the cost of maintaining or leasing the dedicated private networks needed to ensure security.

Now, however, the Internet phenomenon and the wider acceptance of Internet standards conpled with deregulation and tumbling telecommunications costs have re-ignited interest in electronic trading.

"Ideally, enterprises want to leverage the World Wide Web's ubiquitous presentation strengths and EDI's transaction processing strengths," says Gartner Group, the information consultancy. According to Gartner: "Senior business executives now view electronic marketplaces as new or expanded marketing, sales and distribution channels."

In the US, Killen Associates, the research and consulting firm, estimates that electronic commerce is growing by about 16 per cent a year and within five years will reach $800bn.

In the consumer markets, while electronic shopping is unlikely to replace conventional shopping or mail order in the short term, most analysts believe that it, like other aspects of the Internet, is poised to expand rapidly.

Datamonitor, the European-based market research firm, suggested recently that by the end of the decade £332m will be spent on Internet shopping by more than 800,000 households in the UK alone. The European home shopping market, which hardly existed just two years ago, could be worth £1.25bn.

Such growth in electronic commerce poses both risks and opportunities for financial services organisations. Not only does the Internet make it easier and cbeaper for new competitors to offer banking services, it also makes it easier for financial services to be bundled in with other products.

This is already happening in the motor industry where car purchase finance is increasingly offered to the customer at the point of sale, provided by the dealer or the motor manufacturer.

However some banks have begun to hit back. For example, in the US, International Business Machines recently launched a new service in conjunction with Cbase Manhattan, the New York-based banking group.

Using the IBM system, the car dealer and prospective purchaser send a car loan application from the showroom via the Internet to Chase which processes the application and transmits its decision back over the Internet within minutes. If the loan is approved, the dealer then completes a sales contract which is electronically signed and submitted to the bank via the Internet, then the funds are wired to the dealer. The process, which used to take up to 10 days, now takes less than an hour.

Within the retail sphere, some banks, including Barclays and National Westminster in the UK, have gone a step further and established their own electronic shopping malls. Barclays says it developed its BarclaySquare virtual shopping mall for three main reasons: to learn about doing business on the Internet including who uses consumer-based electronic shopping services; to strengthen the bank's existing relationships with retailers; and to help position the bank as an innovator.

In both tbe US and Europe, banks and credit card organisations are also helping to develop secure electronic transactinn systems.

In tbe UK, the Mondex trial has attracted particular attention and Datamonitor, the market researcb firm, suggested earlier this year that Mondex, whicb was recently sold by NatWest to a consortium of 17 banking partners around the world – could account for 900m payment transactions in the UK, or 3.4 per cent of the total, by the year 2000.

The development of electronic purses, smart cards and secure transaction tecbnnlogy on the Internet is likely to make the case for electronic commerce and the Internet even more compelling.

Advances in PC banking • By George Black

The pressure is growing

This year there have been the first signs of a substantial market for PC banking emerging

Financial institutions are increasing their efforts to do business through customers' personal computers and the internet.

They have largely abandoned their belief that people would prefer to deal with people directly rather than through machines. In 1989, this idea was the reason that many of them gave for their scepticism ebont Midland's First Direct, the first telephone banking service in the UK. Its success surprised them.

Now many UK banks believe that offering services via telephone and personal computer is essential to their future.

"My teenage son will expect it wben he starts using a bank," says Gordon Pell, managing director of Lloyds TSB's customer services.

Pressure on banks to support new channels of business is growing as they feel themselves threatened by non-bank companies capable of becoming important financial service providers.

These inclnde retailers (Marks and Spencer, for example) and information technology developers (such as Microsoft). Microsoft's bid for tbe leading personal finance software producer Intuit, although it came to nothing, was a signal of its interest in taking a share of the banking market. Intuit's software provides online banking facilities to users in the US, France and Germany and the company aims to do the same in the UK.

When Microsoft chairman Bill Gates called banks "dinosaurs" and confirmed his intention to compete with them, bankers' attitudes to technology were shaken up. In just a few months they became much more positive about moving into PC banking services.

The number of users of home banking in the UK could double in the next two years, according to a recent report by accountancy firm Ernst & Young, while the number of banking transactions through PCs could multiply six times.

So far, take-up of the services, which have been offered in the UK for more than a decade, has been slow for several reasons. The main one is probably that few UK homes bad PCs whicb were capable of accessing online services.

The number of bomes with PCs bas risen in the past couple of years to about 25 per cent, but still only about 4 per cent of them have modems.

However, that number too is likely to rise rapidly in the next few years.

Another barrier is that some banking services cannot be offered through electronic media for legal reasons; for example, the Consumer Credit Act bars online loans.

This year there have been the first signs in the UK of a substantial market for PC banking emerging.

In May, Lloyds TSB became the first UK bank to offer all its customers 24-hour accese to tbeir accounts by PC via online service provider Compuserve. Mr Pell expects 125,000-500,000 customers in three years. Lloyds also has a pilot project for mobile banking via a Psion handheld computer.

> **NatWest will launch a trial PC banking service this autumn**

Barclays launched a pilot PC banking service for 2,500 people in April and will expand the service for personal customers when the pilot project ends in the autumn.

National Westminster will this autumn launch a trial PC banking service to 1,500 homes and 500 small businesses. The system will cover a basic personal account plus foreign currency, travel insurance and information on other products and services. Next year it hopes to add a share-dealing service.

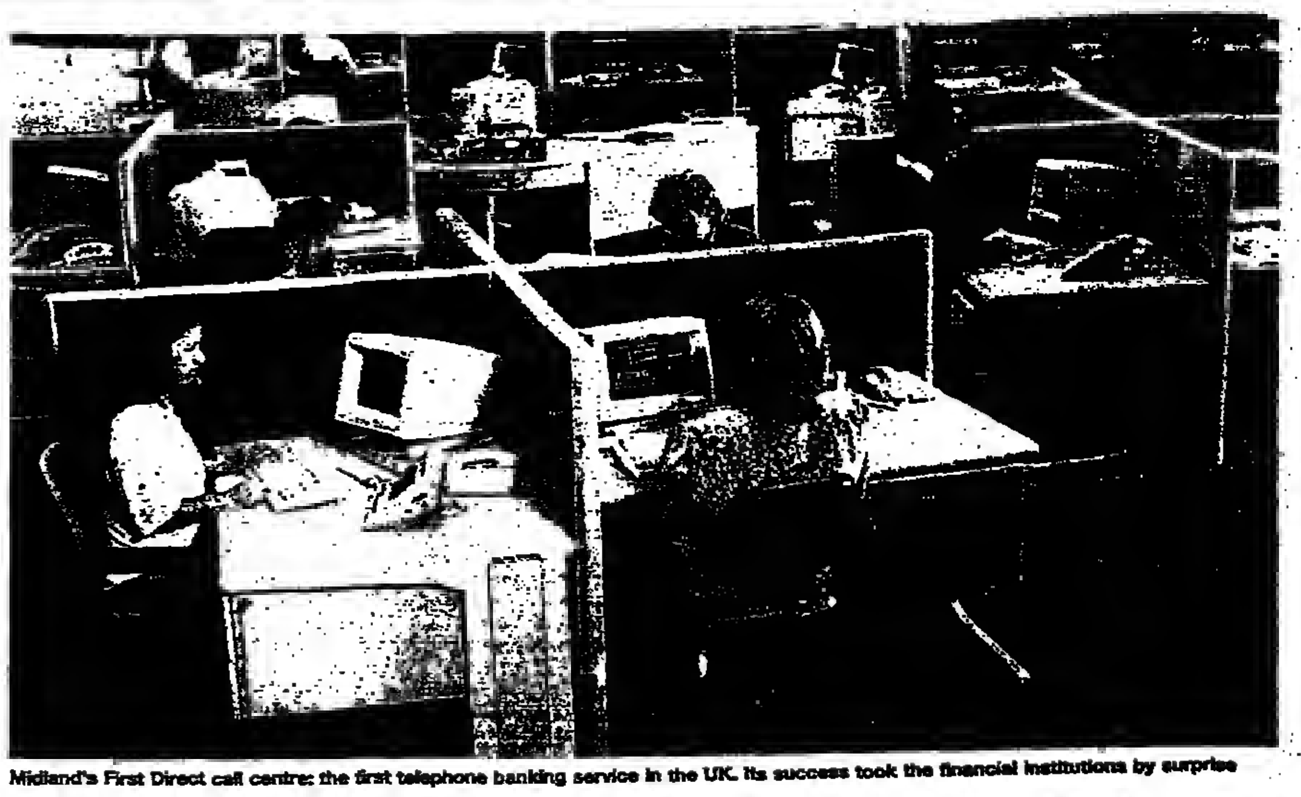
Mr Charlie Herbert, NatWest's manager of new delivery channels, says thet customers will need only a PC and a modem. The bank will provide them with Netscape browser software, adapted to call NatWest rather than the Internet.

The Netscape browser allows the bank to use "applets", or small applications, written in Java, a programming language from Sun Microsystems.

The advantage of this is thet up-to-date applications software can be downloaded from the bank's server to the customer on demand, rather than being stored on the customer's personal computer and needing npdating at intervals. All transactions will be encrypted.

Mr Herbert is cantions about predicting the level of response. "People's attitudes is the major unknown factor in launching such a service," be says. "We need to understand customer demand better before we commit to continuing witb it. But potentially it is a strategic product for us."

A full review will be carried out in mid-1997 with the intention of shaping a permanent service during the second half of the year, if demand justifies it.



Midland's First Direct call centre: the first telephone banking service in the UK. Its success took the financial institutions by surprise

Several other UK banks and building societies also offer personal computer-based accounts.

These developments seem likely to accelerate tbe decline of the bank branch network. Transactione through UK bank branches are expected to fall about 15 per cent in the next three years.

Whether PC banking will ever completely replace branches is doubtful.

The proportion of homes without modems seems likely to remain high for the foreseeable future.

UK banks are keen to introduce banking via interactive television, whicb would open up a much larger market than PC banking. But they cannot launch such services until either BT or a competitor, such as one of the cable companies, is ready to support it. Because the development will require an expensive investment in national networks and a politically favourable climate, it is unlikely to happen before the year 2000.

The Internet is also beginning to play an important part in financial services. Many banks and mortgage lenders have established Internet sites. Online banking services over the Internet have begun in the US and some UK institutions are already supporting internet transactions to a limited extent.

Many insurance companies and brokers have established an Internet presence to promote their eervices through bome PCs. Motor insurance quotations can be obtained from several UK sources over the Internet.

But the banks' scepticism ebout the Internet has not been wbolly eradicated. Some are still reluctant to use it other than as ao advertising medium on the grounds that it remains insecure, may not be able to support commercially viable services and cannot guarantee a performance level. Also, they do not want to be too closely associated with a medium whicb has a bad image as a vehicle for pornograpby.

None of those problems looks likely to be quickly resolved. But analysts such as Forrester Research have warned that if the banks wait much longer they could miss the boat.

Home banking and the Internet • By Tom Foremski

Web browsers beat bricks and mortar

But banks must bear the expense of setting up and maintaining web sites and tying in their web sites with their internal computer systems

Internet-based home banking has several attractive features that are luring banks around the world. The primary attraction is that building an online presence on the Internet is cheaper than setting up bricks-and-mortar bank branches.

Another attraction is that instead of distributing proprietary home banking software to customers and having to support those applications on different computer platforms, Internet software in the form of World Wide Web browsers such as Netscape Navigator and Microsoft's Internet Explorer, offer a standard user interface that is already in the hands of tens of millions of users and run on a wide variety of different computer platforms.

These web browsers are supported by the companies that created them and the interface is already familiar to millions of users, and does not require them to learn a proprietary home banking software package.

Internet banking will take many forms. It can be a simple electronic brochure advertising bank services and providing customers with a way to check bank balances, to full-blown banking services allowing users to pay all their bills electronically, manage their stock portfolios and transfer money between accounts.

As the bandwidth of the Internet increases, customers will also eventually be able to meet bank staff through desktop videoconferencing and ask questions and receive personalised financial advice from experts.

Microsoft has identified the Internet home banking market as a key market opportunity for its products, ranging from its Money application to its Windows NT operating system that allows banks to run sophisticated web sites.

"I believe that every bank will choose to have its own Internet presence," said Microsoft chairman Bill Gates, speaking at a recent financial services conference.

"Customers will certainly want access to the full range of banking options. They want to be able to see all of their data, all their cheques, all their credit cards. They want to be able to perform almost any type of transaction."

And with local Internet access available to millions of users in each country, banks with Internet banking services will have the chance to market their financial services to customers where they do not have local branches.

But the rush towards Internet-based home banking is not straightforward. With millions of people using personal accounting software such as Intuit's Quicken and Microsoft Money, the key will be to easily tie in a customer's banking information with their personal accounting software.

This requires a substantial investment on the part of the banks to make their customer data available in data formats that can be easily used with the users' personal accounting software.

It also means that banks must make Internet banking attractive to users through lower fees and time savings and convince them that Internet banking is secure amid almost weekly reports of serious Internet security breaches.

Banks must also bear the expense of setting up and maintaining web sites and tying in their web sites with their internal computer systems. Fortunately, there are many development tools coming onto the market that are making this job easier but key questions still remain on what is the best way to offer Internet banking.

Despite these challenges, US market research firm Jupiter Communications predicts that home banking will increase from about 700,000 users in the US in 1995, to more than 5m by the year 2000, involving as many as 75 per cent of all US homes.

Recognising the importance of Internet banking, US banks have been rushing to form alliances with personal accounting software makers such as Intuit and Microsoft. Even purchasing companies such as BankAmerica and NationsBank have jointly bought Meca Software that produces the popular Managing Your Money personal accounting software.

The issue of Internet security, however, is one that banks will have to work hard on to convince customers that the Internet is safe for banking services and that account information will not be intercepted by unscrupulous third parties.

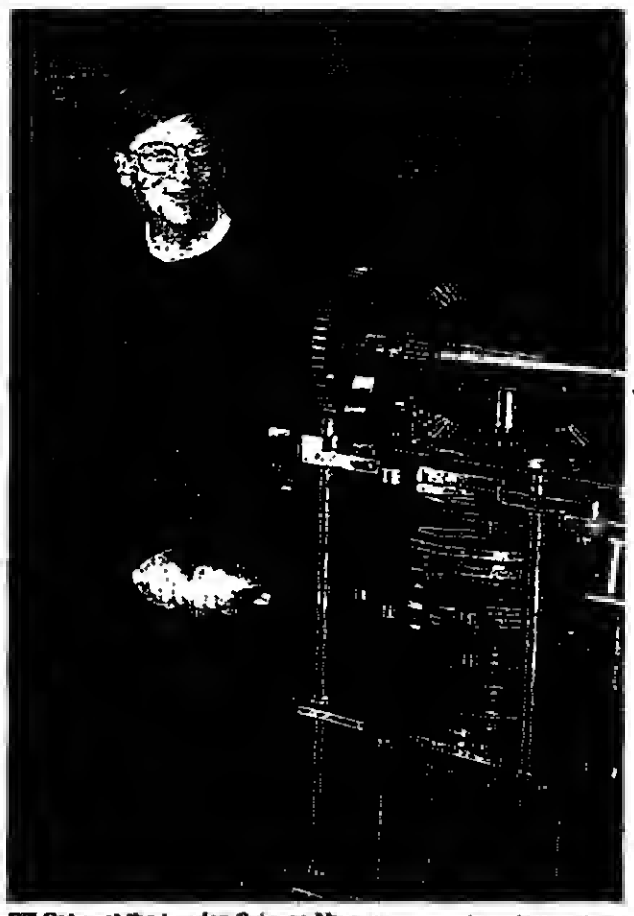
"I think the Internet security issue has been overblown," says Scott Smith a security analyst at Jupiter. "There is already some pretty good security technology but companies will have to work on educating consumers that the Internet is safe for financial transactions."

Financial organisations have come out in broad support for the Secure Electronic Transaction (Set) standard. Full implementation of Set has not yet happened but it will rely on sophisticated authentication and encryption technology that will be very difficult to crack by third parties.

Set will use digital certificates that will identify the customer electronically and will allow banks to determine that they are indeed dealing with a specific customer rather than someone masquerading as that customer.

The procedure for issuing such digital certificates has yet to be determined. It may involve customers presenting themselves physically at some location and identifying themselves and then receiving a certificate.

Another key issue with Internet banking is that smaller financial institutions have a much smaller cost of entry compared with the cost of establishing bricks-and-mortar branches. This means that the larger banks are facing competition from smaller banks in the Internet banking market.



Bill Gates at the London Science Museum Picture: Malcolm Watson

Larger banks who have invested a lot of money in building a brand face the challenge of competing for a range of basic financial services with smaller banks with smaller investments that have to be recouped.

Internet users will find that it will be much easier to shop around for financial services. New technology developments such as software agents, for example, will be used to automatically search many bank web sites to find the best loans.

The challenge for the larger banks will be in developing compelling additional services to retain customers and win new customers.

This kind of market differentiation could come from sophisticated added-value services that require a large investment to create and will thus make it more difficult for smaller competitors to keep up.

What those compelling value added services will be, however, is still to be determined.

INTERNATIONAL ASPECT US banks lead the way

Just a mouse click away

Internet-based home banking is one of the fastest growing trends in the financial services industry as banks recognise that an Internet-based web site is cheaper than building physical branches - and that it can also bring them into contact with existing and potential new customers who are just a mouse click away.

US banks of all sizes, with more Internet users per head of population than any other country, have been quick to jump on to the Internet and set up web sites.

One of the first Internet home banking pioneers is San Francisco-based Wells Fargo Bank which began offering its customers a web site service in May 1995. The web service was fairly modest initially, enabling customers to check their account data, but the site has since added many more services. These include the ability to pay anyone in the US electronically, to schedule payments in advance such as regular bills, and the ability to specify payments from a PC, touch-tone telephone or a Wells Fargo ATM.

Wells Fargo customers can also check which cheques have been cleared, examine credit card charges and payments, transfer funds between accounts, and download banking account data directly into popular personal accounting software.

Wells Fargo says it is encouraged by the web site and says it has received positive comments from many of its customers. In September last year it suspended its web site because of security concerns over an earlier version of the Netscape Navigator web browser. The web site was re-launched one month later with improved security.

It is not only big US banks such as Wells Fargo that are building a successful Internet home banking service.

Kentucky-based Security First Network bank is a good example of a small bank entering the market.

Customers are able to check their accounts and write electronic cheques through a link with electronics payment firm CheckFree. Even though creating a viable web site can be expensive, the bank calculates that it takes just 1 per cent of assets to run the electronic bank, rather than about 3.5 per cent of assets for conventional banks.

New York-based Wilber National Bank, which specialises in serving a mostly rural community, is another example of a smaller bank moving into the Internet area. Wilber has contracted with US company Online Resources & Communications to set up and manage its Internet-based banking services.

"We can no longer afford to be geographically restricted," says Robert Moyer, chief executive officer of Wilber National Bank. "But as an industry, we have a lot to learn about marketing in cyberspace and working with customers whose hands we can't shake. Which is why we're starting right now to offer our customers every option possible to access their money and information."

Home banking, however, does not always require an Internet connection and a personal computer. This has been demonstrated by UK-based First Direct, a subsidiary of Midland Bank and the Bank of Scotland which use the telephone and postal mail to handle transactions and check account balances.

Tiny Virginia-based TeleBank has modelled its operation on the UK banks and has more than 12,000 customers around the US, operating from a converted warehouse in a shopping mall.

As Internet use grows in Europe, banks are setting up pilot projects to test the viability of Internet home banking. Sparda Bank is one of the first German banks to offer Internet home banking with a service it calls Sparda NetBanking. The service uses a security technology developed by ESD Information Technology Entwicklungs, called MeCHIP, which uses a special chip to encrypt data between the bank and the customer.

Sparda expects to have at least 7,000 customers for its Internet banking within the first year of the service and it estimates that 3,000 of those users will be new customers attracted to the benefits of Internet banking.

In Switzerland, Internet-based home banking is having a tougher time becoming established because of previous efforts to set up home banking based on a national Videotex system. Banks that made substantial investments in home banking based on the Videotex system are reluctant to jump to Internet-based services because of their previous investments.

Elsewhere in Europe, Asia and South America, the level of Internet-based home banking is tied closely with the number of Internet users. Until Internet usage increases to a significant proportion of the population, Internet home banking will have to wait. However, waiting is not such a bad thing, allowing those banks to learn from the pioneers in other countries and better determine the best way to offer those services.

Tom Foremski

■ Database marketing • By George Black

Less junk mail on the doormat

The institutions are confident they are improving their accuracy and shaking off their reputation for generating junk mail

Scottish Widows is one of the top spenders on direct marketing in its sector

In the past few years, UK financiel institntions have turned more towards direct marksting, using knowledge ecquired from databases to sell their products and services.

Financial services companies are the largest users of direct mail in the UK, making up 25.6 per cent of ths total in 1995, according to the Direct Marketing Association. Insurance companies are the largest contributors with about 10 per cent, followed by the banks with 8.7 per cent, credit card companies with 4.7 per cent and building societies with 2.3 per cent.

Financial firms spend about £1.6bn of the annual total of £5.5bn devoted to direct marketing, including direct mail, says the DMA.

Tbe managers of these firms bslieve thet more effort should be put into marketing to good prospects and less on addressing the mass market. As they learn more from their information technology ebout their customers, they are able to identify their best sales prospects more accurately.

There is plenty of evidence that businesses in many sectors are trying to farm their existing customer bases more – and turning eway from the expensive and unrewarding task of trying to win new customers whom they know little or nothing about.

A recent presentation by William Hoskins, a research director at the Gartner Group consultancy, stressed the trend towards e "customer-centric" focus and away from a "market-centric" focus.

The trend is being driven by a big increase in the sophistication of customer databases and in the power of database marksting systems. As they mature, these systems become more like data warehouses or data mining systems and less like the bought lists of names which generated "junk mail" and caused so much irritation to the general public.

Financial firms have restructured their information systems to turn policy files into customer databases and are now studying those databases to analyse what sort of people huy what sort of product. This helps them to target better, sending fewer letters and getting a higher response rate – and, more importantly, a higher conversion rate to new business.

If it reaches the right people, direct mail is popular because those people often prefer to be able to consider financial offers in privats without the pressure of a sales person confronting them.

The institutions are confident they are improving their accuracy and shaking off the reputation for gensrating junk mail. All of them stress that they do not want to send letters to people who do not went them.

Some institutions ars spending e higher proportion of their marketing budgets on direct marketing. But at others where expenditure on direct mail has been fairly flat, it can imply that targeting is improving.

Northern Rock Building Society has refined its mail shots, based on a CCN system, from abont 200,000 letters seven years ago to 50,000-90,000 today, wbile steedily increasing its response rate.

Research manager Clare O'Neill says tbat its database marketing is confined mainly to its own customers and has been most effective wben used for unsecured loans, personal equity plans and mortgage protection policies.

In some cases, direct mail has been introduced to complement local hranch services. Barclays Bank has in the past two years moved into direct marksting for personal loans. This has mainly been to cetch up with those customers who do not visit its branches, according to Martin Binder, head of strategy and product development for the bank's consumer lending business.

Direct mail invites these customers to phone a loan centre outside their working hours. Barclays relles heavily on an in-house team to prepare its target list, using SAS software on a personal computer linked to its mainframe database. Only about 8-9 per cent of current account customers are chosen as suitable recipients, based on an analysis of abont 300 characteristics.

Intense competition in the direct selling of insurance bas made General Accident devote more effort to database marketing, as it becomes harder to attract customers through advertising. This montb, Generel Accident Direct plans to launch a new database marketing system based on CACI's MerketMaster personal computer software.

Ian Carstairs, the company's marketing database manager, says his department has taken control of building its target list, which was previously left to the IT department and a list supplier.

"We want to analyse our customers more closely and build a list of people like tbem. We hope this will prove a more cost-effective approach," he says.

Scottish Widows, one of the leading UK life assurance and pensions compenies, is one of the top spenders on direct marketing in its sector. It has cut its spending on television advertlsing sligbtly, in fevour of direct marketing.

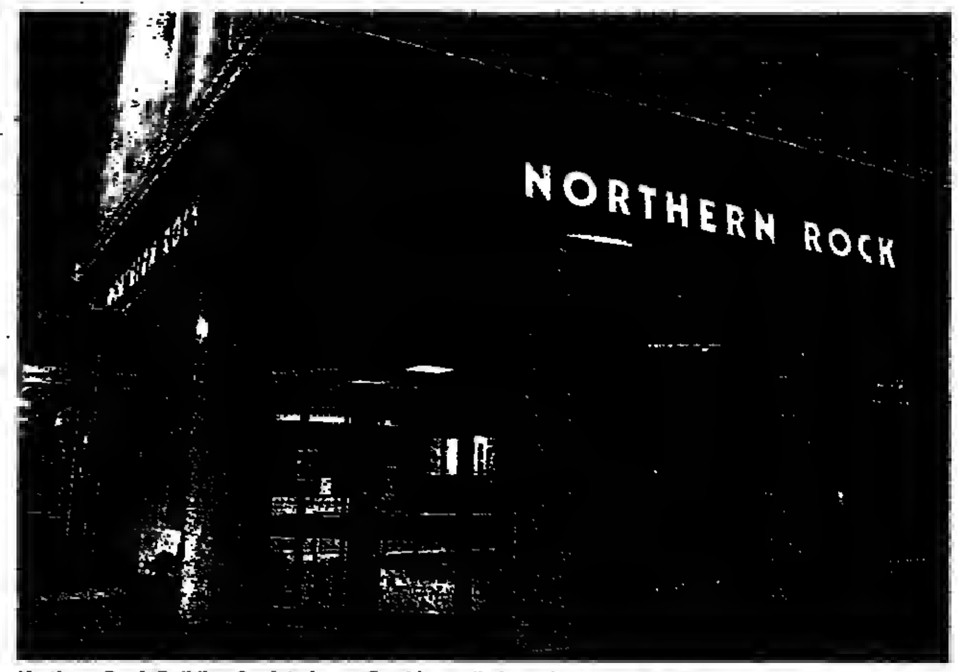
Scottish Widows direct marketing manager Steve Gapper says tbis is a result of geining experience in mailings and making them more effective through the use of a Harte-Hanks database marketing system.

Most of its direct marketing is to existing policy-holders, aimed at persuading them to put more of their money into its services. The response rate to this form of marketing can be as high as 15 per cent, although it may be as low as 0.25 per cent to a bought list of names, says Mr Gapper. "There is still tremendous room for improvement," be admits. "Tbe response rate could well go ebove 15 per cent if we can learn enough about our customers."

He notes that higher success rates are being achieved in the US and be attributes this to a longer history of direct mailing, tbe greater willingness of Americans to do business remotely and their greater need to rely on tbeir own financial provision. Also, database marketing software in the US is likely to get the latest enhancements sooner than in the UK. New techniques such as neural networking – software which can spot patterus – may boost the ability of database marketing systems to identify key factors in lifestyles and life events which trigger financial decisions.

A survey by Mintel in 1993 suggests that financial firms may still have a lot to learn. Their average response rate was about 6 per cent, it found, compared to about 19 per cent achieved by direct mailers in fast-moving consumer goods, and an 8 per cent average for all sectors.

Also, financial direct mail still generates a fairly high level of annoyance, with 17 per cent of respondents saying they objected to receiving it more than other types of direct mail.



Northern Rock Building Society has refined its mail shots, based on a CCN system

■ Credit scoring • By Rod Newing

An increasingly important role

Credit scoring software can help maximise profitability, but only if it is part of an overall management system

Credit scoring software is an important contributor to the profitability of a credit portfolio, but only if it is properly integrated into an overall credit management system.

"Credit scoring isn't just a question of developing and applying software algorithms," says Dr Michele Lundy, director and general manager of CCN Decision Systems, based in Nottingham. "You need strategy management on top, so a lot of consulting and expertise goes into developing client solutions."

CCN is a leading global provider of risk management, target marketing and account processing services.

With the increasing variety of lines of credit and economic recession, the use of credit scoring software is becoming increasingly important.

Credit scoring software is used to evaluate applications against existing customer performance in order to increase the profitability of new business by reducing credit risk. Specialist providers of credit rating models incorporate their software into transaction processing systems which are used at all stages in the credit life cycle.

Use of the software starts with targeting customers and prospects through marketing. It is then used in the all-important applications for credit.

Its use continues during the "behavioural" stage, where debtors service their debt and make repayments, so that their performance can be monitored and established by the software. If necessary, its use will continue through the collection and litigation stages.

"Credit scoring techniques can be applied anywhere where high volume decisions are being made," explains Chris Hoyland, managing partner of Statistical Decisions, a credit scoring software and consultancy company, located in London.

"This includes authorisation, collections, card renewal, marketing response, cross-selling, limit increases, litigation, etc."

The process starts with extracting existing customer performance data from the institution's customer database. This is passed to the specialist to be processed in order to build models of the credit performance for each type of product. This is carried out using data mining techniques, such as neural networks, discriminant analysis and regression. These techniques produce models of customer behaviour which can then be embedded into the institution's operational systems.

Organisations such as CCN can also produce generic models using their own database of public or shared user group data.

The credit scoring software uses information captured from the application form and from credit reference agencies and compares it to the model of existing customers to calculate a score, which will forecast their creditworthiness.

"You don't just reject those below the threshold," warns Chris Hampshire, business manager, at EDS Financial Services Division, based at Cheadle near Stockport. "You need to check if the applicant is an existing customer against a customer management system.

"You don't want to turn down e valued customer with a low rating, especially if they have funds invested or own an instrument with the institution."

> The management layer needs to provide more than just a credit rating score

Mr Hoyland says: "Anybody can develop a score, but it takes a banking expert to use the score profitably. Unfortunately, the credit scoring industry at the moment is based on statistical skills, rather than being combined with banking skills. The best scores are e combination of both, because sometimes the best statistical answer is not the best solution.

"Credit score development and implementation needs to be managed and only financial institutions can do this."

There are a number of problems to be overcome in implementing an effective credit scoring management system. "The management systems must allow the institution to check for money laundering, which is a world-wide problem," says Mr Hampshire. "Another problem is the difficulty of defining a customer. It can be an individual, a husband and wife or a whole family."

Mr Hoyland also points out that institutions need to ask the right questions in the right way on their forms in order to get relevant answers. "They don't give it enough thought," he says.

The management layer needs to provide more than just a credit rating score. It works across the whole credit life cycle. During marketing, it allows the most profitable prospects to be identified. Obviously, it is used during new business: "You need to determine not just if an applicant is credit worthy," says Dr Lundy. "You have to go further to determine for what amount they are worthy, what interest rate should be applied and the right repayment period for the credit. It is about how our clients establish and manage their credit policies effectively, so strategy management software can be very powerful."

Successful implementation of a strategy management system allows customers to be segmented into discrete groups, based on the results of tha modal. Each group represents a different type of customer with uniqna risk and profit potential. These sub groups can then be targeted with different strategies.

"If a new customer and one who has met every payment in 10 years each miss a payment, they would normally get the same letter," explains Dr Lundy. "However, using software allows antomatic generation of a different letter to each. One can be a gentle reminder and the other a firm instruction to pay."

Ths financial servicss industry is very conservative when considering the use of credit scoring software. "In reality, many banks have never accepted credit scoring," says Mr Hoyland.

"Institutions nesd to he comfortable with it, because they perceive that there is always a risk that it might make their credit performance worse. They always have them, but in times of recession they haven't used them to manage their businesses. Credit scoring is a leading indicator, so in 1989 credit scores told them thet applications in ths United Kingdom were more risky, but they waited until they went bad three years later to prove it."

This reservation is shared by other specialist suppliers to ths institutions, who believe that the software should be flexible enough to allow bankers to experiment with policies. "Nobody really knows how to manage their credit portfolio," says Andrew Jennings, director of operations for Fair, Isaacs, the Birmingham-based credit rating software and consulting specialist.

"It isn't possible to come up with a simple set of rules. You need the flexibility to be able to change policies rapidly or evolve them over time. You need to be able to experiment with different policies for different groups of customers. This experimentation process needs to cover the whole credit life cycle."

Mr Jennings believes that the people who are most successful use the credit scoring software to make pro-active decisions. However, beyond that he believes they also bave the best delivery systems for implementing those decisions.

"No software and statistics in the world are a substitute for thinking," concludes Mr Hoyland. "Psople need enabling tools to test ideas and accept or reject the answers and that is what good software should do."

■ Security issues • By Louise Kehoe

Confidence is critical

Urgent efforts are under way throughout the software and banking industries to improve the security of online financial transactions

It is no coincidence that the first bank to offer a broad range of consumer services on the Internet is called Security First Network Bank. The name is clearly chosen to reassure potential customers that electronic home banking on the Internet is safe.

Building consumer confidence in computer banking is critical to the growth of electronic commerce, industry officials believe. So far, however, it has been an uphill struggle. Consumer fears thet hackers might be able to intercept Internet transactions, steal credit card numbers from computer records or delve into private financial files remain e significant barrier.

Yet home computer banking has broad consumer appeal. Market researcb conducted oo behalf of Microsoft suggests, for example, that consumars are enthusiastic about the possibilities of transacting their banking business at s time and location convenient to their lifestyles.

Moreover, home PC users expect more than simple access to their current cash balances. They also want to pay household bills online, order travellers cheques, buy and sell stocks via their home computers and order and pay for goods via home shopping services.

For banks and established financial services companies, the Internet creates opportunities to deliver 24-hour services without the high costs of staffing and maintaining high street branches. Moreover, established banks must move quickly if their traditional role is not to be usurped by a new generation of software and services companies offering electronic transaction facilities on the Internet.

Urgent efforts are therefore under way throughout the software and banking industries to improve the security of online financial transactions.

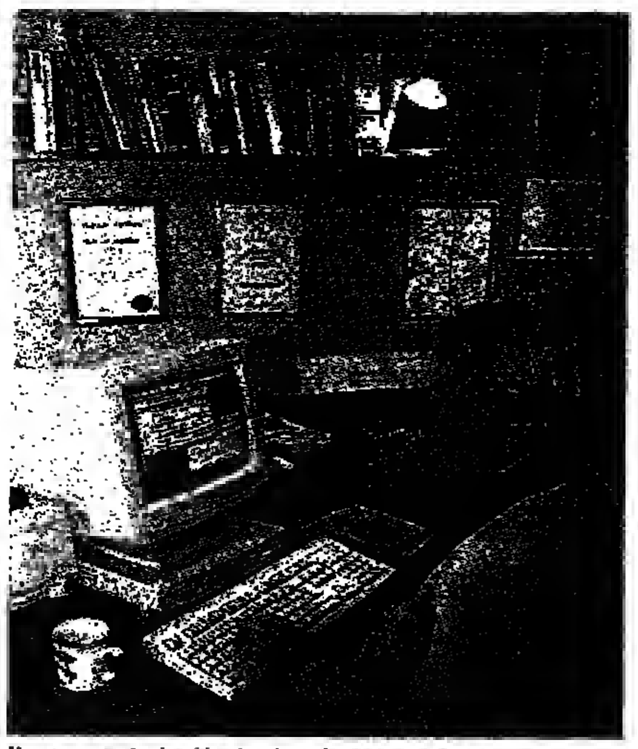
One of the most important elements of online security is encryption. By encoding electronic messages – whether they be private electronic postings, purchase orders or credit card numbers – computer users can ensure that even if their files are stolen or intercepted they will not be readable.

Currently, the US government is inhibiting the broad use of euch encoding systems in electronic commerce by prohibiting the export of software incorporating strong encryption technology. However, leading US software executives are lobbying Congress and the White House to relax these export control laws.

Netscape Communications, a strong proponent of encryption, has incorporated high-level 128-bit coding in the latest version of its popular browser software, Netecape Navigator. It is not clear, however, whether this "secure" version will be exportable outside the US.

Encryption is not, however, a complete answer to ensuring the security of online financial transactions. Another essential element is an authentification scheme to positively identify the sender and recipient of an electronic order, message or payment.

Electronic signature systems that ensure messages or documents passed over a computer network are genuine, and have been sent by the person or company that they purport to come from, are expected to become a standard feature of data network communications, particularly in electronic commerce.



Home computer banking has broad consumer appeal Tony Andrews

Some of the thorniest security problems facing banks and financial companies that are moving towards Internet eervices are not, however, visible to consumers.

To provide tens of thousands of customers with instant access to their bank accounts from bome computers, banks must create links between their Internet sites and existing computer databases containing details of customer accounts. This must be done, however, without exposing the banks' computers to potential unauthorised intrusions.

Banks are naturally secretive about how they intend to achieve this compromise between enabling customers to have free access to their account information while keeping their database "vaults" firmly locked. This will involve creating highly secure systems that regulate data traffic between public access computers on the outside and private databases inside the bank. Few such systems have been put to the true test by linking them to the Internet and thus allowing expert computer hackers to attempt break-ins.

Maintaining computer security is not a new challenge for the banking and financial services industries. Worldwide, trillions of dollars are said to be moved via international wire transfers every day. Yet according to computer security experts, the Internet has increased computer security risks. Not only does the worldwide network link tens of thousands of computers but it also has spawned widespread knowledge and interest in computer communications.

By establishing standards for computer links, the Internet has provided would-be computer attackers with a standard target.

Banks' computer networks which are used to transfer billions of dollars every day have, for example, typically been based on a mix of old and new communications protocols and computer operating systems. Knowledge of how these networks operate has been limited to a few technical experts, most of them bank employees.

This is "security through obscurity" saye the chief technology officer of one large US bank. Now, as banks convert their systems to modern Internet standards, the number of hackers capable of attacking these networks is expanding.

Tha Internet, therefore, while presenting huge new opportunities for banks and financial services companies, is also forcing the industry to redouble its efforts to maintain computer security.

■ International aspects: Spain • By Geoff Nairn in San Sebastian

Branches are thriving

Thanks to a new information system, BBV has been able to open 200 'slimline' branches

Consultants may predict the imminent demise of branch-based banking, but in Spain the format is thriving as banks have discovered how to use IT not just to cut costs but to develop a better service that keeps customers walking into the branches.

Spanish society is cash-based – plastic and cheque transactions are rare – and more than 300 banks and 30,000 branches compete for customers' cash with e dazzling range of accounts and gifts.

Unlike most of Europe, branch density has risen in Spain in receot years to 900 branches for each million inhabitants, against 445 in France and 310 in the UK. The nation may seem chronically over-banked, but this did not deter Banco Bilbao Vizcaya, the country's second-largest bank, from opening almost 200 new outlets in 1995.

"The important factor is how many people you have in each branch and how many are productive," says José Fonollosa, BBV general manager.

These new branches are emaller than the average and, thanks to a oew information system developed with IBM, can be operated by a staff of just two. The average staffing level across BBV's network of 2,000 branches is six, while the UK average is 12.

Each BBV branch is equipped with an IBM OS/2 server, connected in real time to an IBM mainframe in Madrid, and a local area network of PC-based counter terminals, from which a wide range of operations can be performed and completed by counter staff.

Paper has virtually been eliminated and with it the need for back-office staff – the overhead that makes traditional branches expensive. The 200 new "slimline" branches do not have back-office staff and the percentage of BBV's workforce employed in back-office functions has dropped from 25 per cent to 6 per cent in 10 years.

About 5,000 jobs bave gone, mostly through natural wastage. By 1997, all branches will bave new systems et a total cost of Pta3bn.

Mr Fonollosa insists that the main focus of the project is not to reduce the payroll but to streamline low-margin operations, tbus allowing staff to use the time when the customer is at the counter to sell new products.

Most banks have similar aims bnt are let down by their computer systems, which were typically designed in the 1980s to handle transactions entered on "dumb" terminals connected to a central mainframe. The model has since evolved, first with PC-based terminals and, more recently, clieot-server systems in the branches.

For example, Banco Popular, another big Spanish bank, is migrating its 1800 branches from dumb terminals to client-server systems based on Microsoft Windows NT. The bank was worried about system failures – client-server hardware is usually less reliable than mainframes – and so ICL is eupplying the lerger branches with high-availability versions of its Teamserver systems that switch to a standby server if the main one fails.

Client-server technology allows banks to improva branch efficiency, but to fully reap the benefits of their investments, many banks are now trying to move from a transaction-based banking model to more cuetomer-focused systems. But turning the mass of data stored on mainframe databases into useful information that can be accessed by branch staff is a formidable challenge.

John Shipley, European vice-president at ICL Financial Services, says: "Restructuring databases to allow cross-selling of products is a vast task but banks will have to do it." BBV realised this five years ago, when it started to replace the various product-oriented databases on its mainframe, each organised by account number, with a single database in wbich information on the various accounts held by customers is arranged by name rather than number.

"Consolidating the data from the different systems into a single database was probably the biggest task we have undertaken," says Mr Fonollosa. The problems were compounded by the complexity of Spanish names and BBV staff spent a year manually matchlng 400,000 accounts whose names a computer program could not matcb.

BBV's customer information system maximises the selling opportunity when a customer is at the branch counter. It prompts the teller to promote a particular product when, for example, an account shows a high balance, or the cuatomer reaches pensionable age.

BBV is applying data warehouse techniques to the customer database to better target marketing and improve the profitability of each customer. It is working on a project that sifts through transactions of former customers to identify behaviour patterns prior to accounts being closed.

"When tbe direct debits are cancelled, it's already too late, so we are looking for early warning signs of when they start loving us less," says Mr Fonollosa.

Spain has more than 24,000 automated teller mochines and banks plan to expand ATM services to include paying utility bills, videoconferencing links to bank staff and recharging of electronic purses.

But ATMs are seen as a double-edged sword. "The danger with ATMs is that banks will lose their customer contact and the opportunity for cross-selling," says John Shipley of ICL.

Banco Popular is migrating its 1,800 branches from dumb terminals to client-server systems based on Microsoft Windows NT Lydie van der Meer

■ Payment systems • By Tom Foremski

Revolutionary potential

Smart cards and electronic cash still have a long way to go before they become established

Electronic payment systems, from smart cards to Internet-based electronic cash, have the potential to revolutionise the purchase of goods and services and open up new forms of commerce and banking. But both these forms of payment still face a long battle to become established and trusted.

Smart cards, also known as stored value cards, have been around for many years and finally seem to be gaining enough momentum to break out of a cycle of ever-larger pilot programmes and become an accepted payment vehicle. At least that is the case in Europe, where the concept of smart cards has steadily built support.

In the US, smart cards are still considered a novel technology although that should change following the Olympic Games in Atlanta, where a big smart card trial involving about 1,500 merchants was set up to win new supporters.

Smart cards rely on tiny silicon circuits that combine a microprocessor with memory and software. Smart cards can be likened to an electronic wallet that can be refilled with money. In the same way that a regular wallet holds paper money representing cash value, smart cards hold electronic bits and bytes that represent cash value and are exchanged for goods and services through special card readers. Unlike credit cards, which are used for relatively large purchases, smart cards are designed to replace the cash in consumers' pockets and be a cost-effective way to pay for small purchases, such as a can of drink.

Motorola is the largest supplier of chips for smart cards and has developed ever more powerful chips to be able to perform security authentication tasks. "There is enormous interest in smart cards as banks seek to add new services," says Ian Duthie, marketing manager for smart cards at Motorola. "The cost of handling cash by merchants can be significant. Smart cards can reduce those costs dramatically."

Creating smart card chips presents some challenges. "The chip has to be small yet powerful and it has to be flexible, unlike the rigid packaging used in computer chips in computers. It also has to put up with being sat upon and being used to scrape ice off a car windshield," says Mr Duthie.

Motorola sees an enormous potential in smart cards, especially if they can be combined with credit cards to provide multiple functions. There are more than 500m credit cards in use worldwide.

Visa and Mastercard say they are interested in smart cards and plan to introduce them as part of their credit card operations. But the rate of introductioo will depend on their member banks and whether they can see value in the smart-credit card combination. Visa and Mastercard also have an additional interest in smart card-enabled credit cards because they can integrate much better security features, such as fingerprint matching to confirm the identity of the card holder.

The US market, however, is lagging behind in terms of smart card interest because of its great size and the diversity of its financial institutions and retailers. Mr Duthie points out that it is easier to establish smart cards in smaller countries such as Belgium and Portugal where agreements are easier to negotiate. In fact, the US lags behind Asian countries in terms of smart card interest.

Africa also represents a promising market for smart cards. Zambia is testing smart cards in a pilot programme run by Barclays Bank of the UK. Countries that do not already have a well established telecommunications infrastructure, which is essential for verifying credit card purchases, are a good potential market for smart cards. China, for example, plans to issue 300m smart cards, to be called Golden Cards, by the year 2000.

Electronic cash, however, does not need to be stored in a smart card and, with the dramatic growth of the Internet and the rush to establish Internet-based shops, there is growing interest in electronic payments.

There are already several competing versions of electronic cash but the basic idea is that a customer will place a purchase order with a merchant on the Internet, and payment will be made electronically from either the customer's bank account or credit card account.

A key aspect here is the customer's anonymity. In the same way that paper cash shows no record of where it came from. Companies such as Amsterdam-based DigiCash, and CyberCash, based in the US, offer different variations on this theme, and the credit card companies Visa and Mastercard are developing their own systems.

Other financial institutions are also keen to get into this market, and issue their own electronic cash systems. This is producing a hodge-podge of different electronic cash systems which will confuse buyers and merchants unless some kind of standards can be set.

Sophisticated encryption technology is used to authenticate the electronic cash, which brings in an additional stumbling block because of US restrictions in the export of powerful encryption technologies. DigiCash, for example, was founded in Holland specifically to avoid the restrictions of US laws.

In the US, there have been calls from commercial banks for the government to regulate electronic cash. Some commercial banks are concerned that banks could begin offering their own electronic cash, in a similar way that banks used to issue their own bank notes. If an issuing bank fails, it could lead to a general loss of confidence by users and harm online commercial transactions.

But the US Federal Reserve recently said that it was too early to issue any rules or restrictions on electronic cash. Susan Phillips, Federal Reserve governor, said there was a danger of snuffing out a developing market.

There are also some concerns that electronic cash, and the anonymity it could offer, would be exploited by merchants to avoid sales and income taxes by arranging for electronic cash payments to be deposited in offshore banks.

Such issues are unlikely to be addressed until electronic cash becomes a significant payment method. There are only a few hundred merchants participating in the various electronic cash systems being offered. And until at least one company is successful in recruiting a significant number of merchants to create a de facto standard, electronic cash will remain an interesting novelty.

INTERNATIONAL PERSPECTIVE ▪ Denmark show the way

Ideal society for PC banking trial

Denmark claims Europe's highest per capita population of domestic PCs. One in three Danish homes boasts a PC and this figure is growing rapidly.

Such a technology-friendly society should be the ideal proving ground for the theory that retail banking is about to migrate onto a PC screen. Hence the participation of 80 Danish savings banks, representing 2m account holders, in Europe's largest home banking trial, with 32,000 home users hooked up.

The true engine for this impressive project is not technology. The cohesive nature of Danish banking is the single most important factor in promoting mass acceptance of PC-based banking services.

With a large number of small banks, Danish financial institutions already co-operate on a national cash machine network and smart card project.

SDC, the clearing house for Danish savings banks, has developed the home banking project, called E-Bank, with Italy's Olivetti, which already supplies branch systems to all banks that participate in SDC.

One SDC subscriber that has boosted its own customer base by opting for a PC service is Lan & Spar bank – a small institution with 300 staff working in just 11 branches, and a capitalisation of $90m.

Arly Christophersen, its director for seven years, approves an annual IT spend of $5m.

Although Lan & Spar is not huge, with 90,000 private customers, it does have a very clear idea of who those customers are.

"Almost 60 per cent of our customers have a home PC. That's above the national average. They are very used to working with a computer; they are fond of their PC, well-educated and holding good positions."

In less than two years, 9,000 of these affluent and technically literate people have opted to use the home banking service.

E-Bank covers account management, information on exchange rates, personal budgeting and Internet access. The latter includes the electronic mail function that allows communications to and from banks.

Lan & Spar customers often sort out their balance after hours. "They like the service because they're free to use it whenever they want."

Mr Christophersen says a high proportion of the 100,000 monthly transactions conducted via E-Bank take place at weekends or very late at night.

E-Bank features a series of core banking services, with software developed by Olivetti in co-operation with SDC.

Olivetti has taken responsibility for additional security written in before E-Bank was launched on the Internet.

The initial version had to comply with strict Danish regulations. And Denmark has recently passed a home banking law that stipulates security levels.

SDC and Olivetti hope to sell E-Bank to a wider, international market.

Mr Christophersen thinks the $4m Lan & Spar pays SDC for its various services every year is money well spent.

"We have documented the results of using E-Bank. Our expectations for future custom are quite high."

The Danish trial proves there is an appetite for large-scale secure direct banking services on the PC.

But the success of E-Bank owes a great deal to the Danish economy, which has spawned a highly computer-literate society.

Denmark's SDC is a body that represents a very cohesive banking structure. So if retail banks elsewhere in Europe opt for the service they will want to customise it in some way that adds competitive advantage.

Hence Olivetti's talk of E-Bank as a template upon which participating banks can add their own offering.

Michael Dempsey

■ Multimedia banking ▸ By Michael Dempsey

A prolonged gestation period

The human connection is now internationally recognised as essential

A Nationwide mortgage adviser at the Eastleigh branch uses the Interact videophone facility to talk to a colleague in the building society's Swindon office. Nationwide, with 689 branches, has run its interact multimedia experiment at six sites since early 1995

The multimedia bank branch is not a new idea. By 1990, retail banks across Europe were conjuring with the vision of a contact between bank and public without the intervention of salaried staff or the real estate burden of large branches.

Affordable computers had advanced to the stage where graphics were legible and attractive. Software could accommodate the caprices of mass users and provide simple step-by-step routes into a financial advice package.

But the human element was lacking. Customers still needed to speak to a human adviser. Videoconferencing came to the aid of the multimedia banking dream, moving off the large dedicated screen and onto the desktop PC. Why not locate financial advisers in one central branch and tell customers they could access an improved level of expertise by going to one multimedia kiosk?

Nationwide is currently the second-largest building society in the UK, with assets of £38.38bn and seven million customers served by 689 branches. Since early 1995, Nationwide has run a multimedia experiment, Interact, at six sites. The Interact technology consisted of a Pentium PC with a touch-screen built into its own furniture. UK-based hardware and systems group ICL supplied the equipment, while staff at Nationwide liaised with Andersen Consulting to produce the Interact software.

Nationwide, recognising the demand for human contact, designed a virtual receptionist into the system. Carina Brooker became the building society's first staff member to be reincarnated as a computer-generated image. Brooker's voice is heard by members of the public requiring a helping hand through the system. For one-to-one advice, a British Telecom videoconferencing link to Nationwide's Swindon HQ is available.

Bernard Simpson, group services director at Nationwide, is pleased enough with the Interact experiment to agree to a £500,000 roll-out across more than 50 sites. He claims customer feed-back from the trial sites indicates enough satisfaction with the system to justify an ambitious scheme to introduce Interact whenever a branch is being redeveloped.

According to Simpson, Nationwide does not think of Interact in such crude terms as payback from increased business. "It's not about payback. This is something the customer feels comfortable with." He admits the trial threw up some adverse reactions. "Some applications were too simplistic, or they haven't provided the functionality the customer wanted." Contrary to a common perception that the buying public can be inhibited by technology, Nationwide discovered an appetite for multimedia trade. "We found customers were willing to do more than we expected."

There is one final element missing from the equation. Simpson's comment on the enthusiasm of customers begs the question. When will financial arrangements be signed and concluded via a video link?

If Nationwide wants to lead Interact right up to the point of sale it has to confront issues beyond technology. Money-laundering regulations and compliance issues are a road block, says Simpson. "We can take a financial product deal up to the point of actually printing out an application, but then the customer has to go to the counter with a cheque."

The videoconferencing link is not being fully exploited yet. Nationwide has its sights set on a wider base of users who will be attracted to full 24-hour facilities accessed from kiosks in shopping centres or railway stations.

Simpson, who spent a career in food retailing before switching to the finance sector six years ago, thinks personal banking should hitch a lift from other retailers. "Our kiosks could well be sited within another retail location, renting space from a prestigious retailer is obviously a cost-effective way of putting the Nationwide in front of the people we want to attract."

The human connection represented, in a rather bloodless form for the Internet age, by Brooker, is now internationally recognised as essential. For two years, Huntington Bank in Columbus, Ohio, has been running an entirely automated branch. The Access Branch uses a variety of systems to replace the former staff of 12, but two employees are retained as counsellors, providing the same services as Nationwide's Brooker in more tangible form.

The videoconferencing and self-service devices supplied to Huntington by AT&T's NCR arm cost $10,000 to $30,000 each. Guy Wolfenden, an NCR business development manager, is predictably positive about multimedia banking, but he admits that trial activity is still the dominant feature of this marketplace.

With a pedigree in manufacturing cash dispensers, NCR intends to link itself to the multimedia branch, even if a return on this effort takes years to appear. Huntington is in the process of rolling out Access Branch across 17 of its 150 branches.

Abbey National Bank in the UK is testing videoconferencing and advanced self-service devices. These feature the cheque-imaging function that proved popular with the US public. So far, Abbey has only deployed six units, so fewer than half a dozen sites are active.

Multimedia is not a loss-leader, Wolfenden says. "We're seeing the next generation of the point-of-service device for consumer services, not just banking. The banks are realising you've got to have your bets down. If you don't understand how to roll this stuff out when you need to, it might take six months or more when you decide to act.

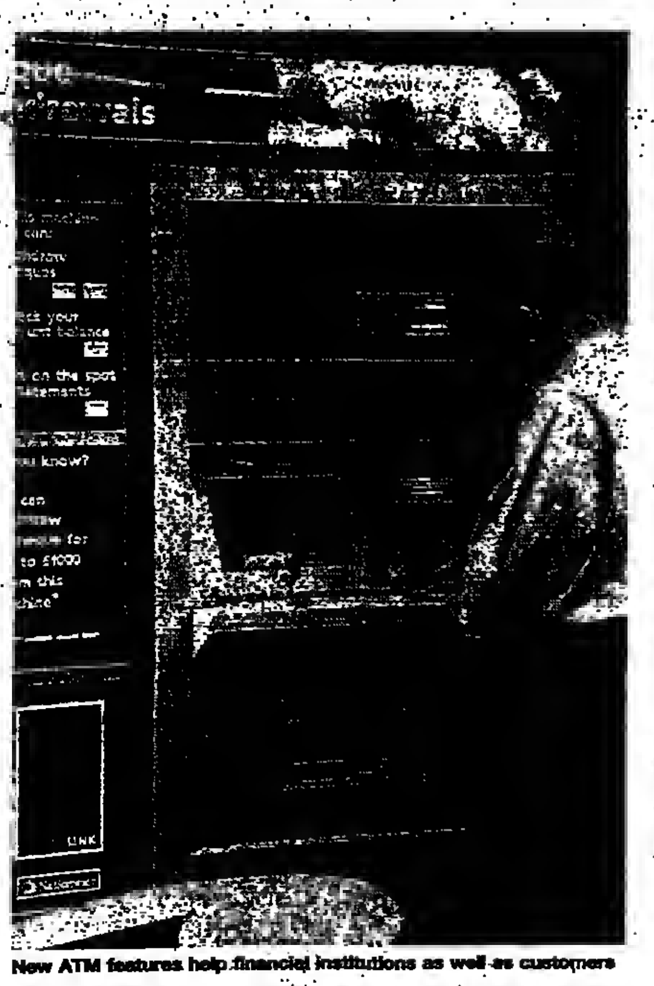
"A variety of new locations such as supermarkets are in prospect. Banks talk in hushed tones about their plans, but everyone's got the same strategy."

The long-term odds are in Wolfenden's favour. Sweden's SE-Banken is piloting videoconferencing to sell consumer loans. Initial feedback indicates that 95 per cent of customers say they prefer videoconferencing transactions to dealing with counter staff. But with financial institutions remaining cautious about indulging in the kind of investment Nationwide has made, the multimedia bank is taking a long time to emerge.

■ The future for ATMs ▸ By John Kav[illegible]

Consumers set the pace

New features are being added to help financial institutions as well as customers



New ATM features help financial institutions as well as customers

When Barclays Bank introduced the world's first self-service automated teller machine (ATM) in 1967, customers could do no more than withdraw £10 using a voucher.

Today, even a standard ATM can be used to make deposits, pay bills and check account balances. Advanced machines offer the prospect of withdrawing cheques, inquiring about loans, and buying shares and insurance.

Financial institutions certainly see ATMs as important to their future. A new study* by consultancy Ernst & Young shows that more than 80 per cent of European institutione will expand their ATM networks over the next three years. The biggest will increase the number of machines by 36 per cent.

The institutions expect the number of ATM transactions to rise from 23 per cent of the total to 28 per cent, while the number handled through branches will fall from 65 per cent to 50 per cent. Other non-branch transaction methods will double in use, while remaining in small minorities: home banking through PCs (8 per cent) and telephone banking (6 per cent).

Services provided through ATMs will also increase: access to more products was mentioned by 84 per cent; more sophisticated transactions by 74 per cent; video links to staff by 37 per cent; and selling other organisations' products by 32 per cent.

There will also be increases in ths types of locations for ATMs: the number sited away from branches, for example in stations, airports, shopping centres, sven factories, will grow from 21 per cent to 32 per cent.

This growth is mainly due to consumer demand, according to Dr Jim Adamson, head of NCR's Dundee factory, which recently produced its 200,000th ATM. NCR is the world leader, with more than a third of a market estimated at 500,000 machines.

"The ATM has taken off in this most conservative of industrisa because of pull from consumers," Dr Adamson says. "They want the convenience of time and place: 24-hour banking. The typical time at a machine is 30 seconds, which can rarely be achieved in a branch. And the consumer feels in charge: for example, a machine makes no judgment if you're overdrawn."

Dr Adamson says 75 per cent of cash withdrawals are now mads through machines, and their use is growing quickly: NCR delivered its 100,000th ATM in 1992, 15 years after entering the market – and doubled that number in the following four years.

Dr Adamson's claims about customer demand are confirmed in a study** by research firm MORI for computer company ICL.

This found that 31 per cent of people regarded a large ATM network as important, compared with just 13 per cent mentioning a large branch network. A third wanted more machines, compared with 26 per cent wanting more branches. More people had visited a machine than a branch in the past week.

These and other findings are likely to become more pronounced in future years, because ths survey also showed that 64 per cent of people aged over 65 had never used a machine, whereas almost 90 per cent of people under 25 used them regularly and wanted more.

But financial institutions are installing ATMs for their own internal efficiency reasons, too. A customer transaction in a branch costs 8-10 times more than one performed through a self-service machine.

At the same time, banks are seeking to cut costs, typically by closing branches and shedding staff, as they face growing competition. This competition is coming not only from similar institutions but also from organisations outside traditional banking and, potentially, even more unlikely sources as ideas such as passing electronic money across the Internet for online purchasing become reality.

The Ernst & Young research report says: "The only competitive advantages that still set banks apart are their ability to guarantee payments and the abiding belief that banks are safer than any alternatives. However, these advantages are fast disappearing."

New ATM features are therefors being added to help financial institutions as well as customers.

At present, cash is deposited in envelopes, which have to be opened and cbeckad manually. ATM manufacturers are now working on ways of accepting notes and recycling them for withdrawals, with no intervention by bank staff. This is thought to be 12-18 months away.

Cheqnes, too, are deposited in envelopes. These are opened and cheques are sent to processing centres. Image processing is now being introduced into ATMs so that customers do the data entry, removing the need for paper handling by the bank. In addition, the ATM can print an image of the cheque on the customer's receipt, providing more proof of the deposit.

A bigger leap is to provide ATMs that can offer virtually all ths services of a branch. Nationwide Building Society has pioneered this in the UK with a trial of 10 machines combining tonch-sensitive screens, sound, text, graphics and videophones.

This project enables it to concentrate expert staff in one location instead of trying to provide specialist advice in every branch.

Customers are presented with a picture of a branch. They touch the doors, which open to reveal a receptionist, who advises on using the system. They can inquire about mortgages, loans, insurance and savings accounts. They can find out the size of mortgage they qualify for, and the repayments, plus calculations on the return on their savings. There are also video clips on the role of solicitors and surveyors in home-buying.

Customers seeking even more information can link via videophone to staff at the head office.

Nationwide says the machines have been "positively received" by customers in the first 18 months. It is evaluating the project to see whether to increase the number of machines. The project has been a hefty one, involving Andersen Consulting, ICL and others.

Today's standard ATM costs £18,000-£20,000 – but Dr Adamson at NCR says cost is not an issue: "The prices have been constant for 17 years, yet functions and processing power havs been added at an amazing rate," he says. "Return on investment can be as little as 18 months."

He adds that banks in particular still have some way to go in exploiting the full potential of this technology: "Retailers would give their right arm for a box which attracted customers' undivided yet willing attention, marketed products to them and captured their business transactions – all with no staff involvement."

**Creating the Value Network: 1996*. Ernst & Young's London office number is 0171-931-3284. ***Attitudes to Home Finance and Technology*, the ICL-MORI report, is available through 0171-614 4046.

■ Detecting insider dealing • By Nuala Moran

Stock exchange gets fuzzy logic

Artificial intelligence techniques are helping the London Stock Exchange to improve market surveillance

The London Stock Exchange is to step up policing of the market with a new computer system that uses a range of artificial intelligence (AI) techniques to detect suspicious share dealing.

The stock exchange believes the Intelligent Alert System (IAS) is so powerful it will not only improve its ability to detect insider trading and dealing rings, but will also provide better evidence when cases go to court.

Richard Kilsby, director of market services at the stock exchange, says the system will help advance the exchange's case that insider dealing could in some cases be a civil offence, where the burden of proof is reduced. At present, insider trading is solely a criminal offence.

"The competition between the major exchanges to demonstrate the market is level is heating up. IAS will show that the market is operating fairly and make it more attractive, particularly to US institutional investors," says Mr Kilsby.

IAS, to be installed in phases from December 1996, will work in concert with the existing alert system, called Integrated Monitoring and Surveillance System (Imass).

Imass itself has just been re-engineered to work with the City's new Sequence trading system, which was delivered last week. Although version two of Imass is considerably more powerful than its predecessor, it still works by issuing alerts to events such as price jumps or large deals. These must then be followed up manually. The difficulty is not only that there are many alerts, but that Imass does not give any indication of the relative weighting of alerts.

"With 80,000 transactions a day, we end up with too much data and no indication of where to focus," says Mr Kilsby. For example, in June 1996, the system generated 860 alerts. After initial investigation, 90 of these became "red", in other words, were deemed worthy of further attention.

Some stock markets employ statistical techniques to provide a sharper focus, for example, looking at 30-day trends. But Mr Kilsby says the value of this approach is limited because the trends are assessed against the overall market. "The high tech sector may move against the rest of the market, meaning the alerts are all the wrong way round."

Rather than providing an alert to a particular event, IAS will provide a report of any patterns of trading that arouse its suspicions. "It will not merely say 'Here is a price rise', but 'Here is a price rise and this individual made these trades around it'," says Mr Kilsby. In fact, IAS can look at the trading patterns of the market in total, in relation to a price rise.

"Coincidence gets noticed," says Dr Jason Kingdon, director of Searchspace, the company which developed IAS. "For example, it would take note that someone sold before a profits warning and then bought back again. That in itself is not culpable, but if the same thing happens again, it starts to become interesting."

If it gets a lead, the system will also look back historically, through as much as five years' trading data, to see if it can pick up other examples of the same thing. The system is able to prioritise and change the amount of effort it puts into each investigation.

"In other words," says Mr Kingdon, "IAS takes a human-type approach. Someone doing research might go to a library with a reference to one paper, and then look up the references given there. This would lead them to something they would not have bothered to look at."

In terms of following the trail, the London Stock Exchange has an advantage over other exchanges because its trading data allows it to identity not only the member firm but also the end customer.

Artificial intelligence techniques such as fuzzy logic, genetic algorithms, expert systems and neural networks are increasingly used in commercial applications such as data warehousing or marketing databases. In harness with faster and faster computers, these techniques make it possible to look for patterns, or pick out individuals, from a mass of data.

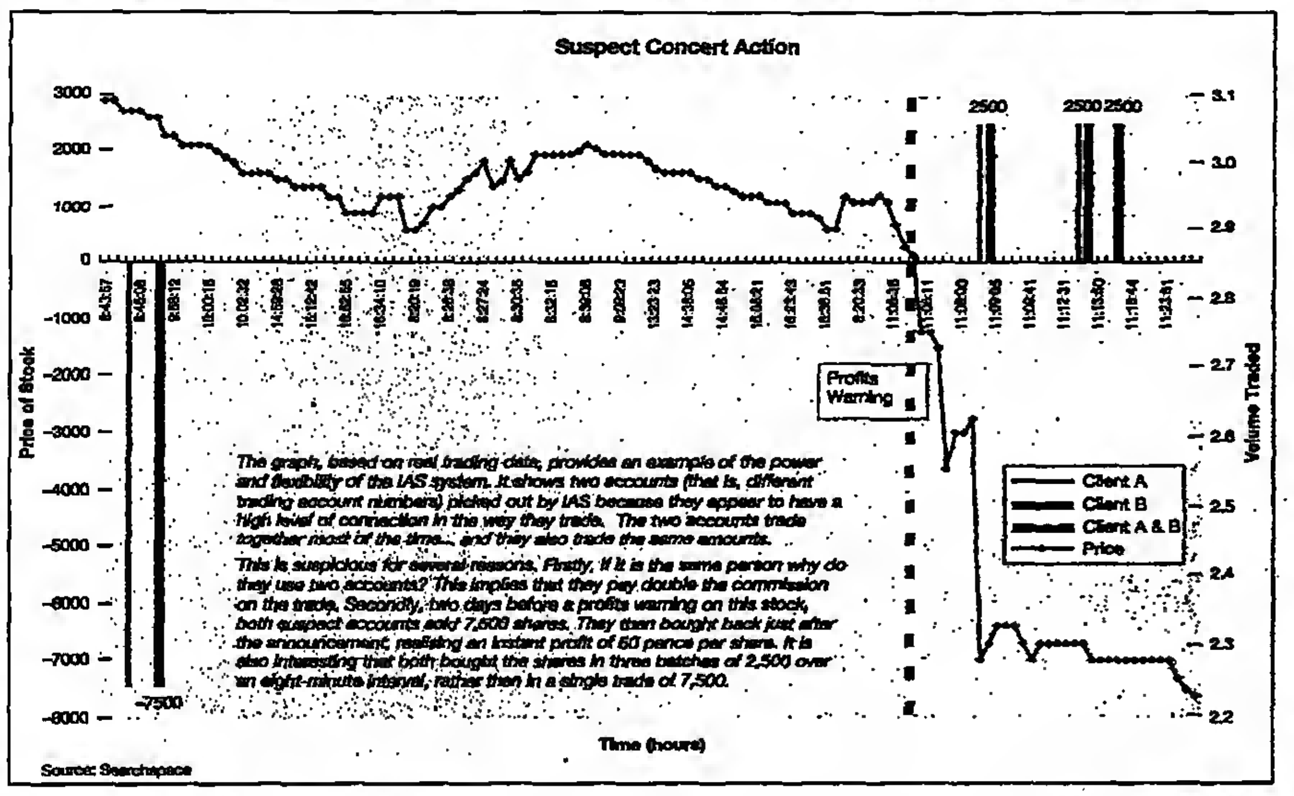
IAS is much more powerful and flexible than existing AI systems because it uses a range of techniques in concert, in an approach that is termed "Hybrid Intelligence".

As yet, there are few examples of commercial systems which employ hybrid intelligence. Searchspace was spun out of University College London's Intelligent Systems Group in 1993. The development of IAS was sparked two years ago, when the company was approached by the London Stock Exchange to assess if AI could be applied to improve market surveillance. The prototype was so successful that the exchange decided to go ahead with a £500,000 investment in a live system. The graph published with this item provides an example of the power and flexibility of the system, which used a genetic algorithm to find the patterns, and fuzzy logic to match them. It had to search more than 2.8m records in order to find the pattern.

"Using the genetic algorithm this took under one minute of processing time; a conventional search of the same data would have taken considerably longer," says Dr Kingdon. "Moreover, we can also look for larger clusters, possibly involving many accounts. This type of search is impossible using conventional techniques because of the huge number of possible combinations."

Mr Kilsby says he believes IAS will find more cases of insider trading. "But the best guess is that this increase will not be significant in terms of the totality of the market."

On the other hand, it will also make it easier to disprove wrongdoing. "IAS will enable us to demonstrate that we know what is happening underneath the market, so that if there is speculation of illegal dealing we can disprove it."



Source: Searchspace

■ Dealing rooms • By Michael Dempsey

Exotic technologies earn their keep

There was a gap in the market for a consultancy which could match real business needs with information technology

Christiane Bänziger can make the most complex task sound simple

In 2½ years of operation, CWB, the city technology consultancy set up by Christiane Bänziger has established itself as an £8m operation that will shortly be employing about 100 staff.

CWB counts Deutsche Morgan Grenfell, NatWest Markets and Credit Suisse among its clients. It ties together the technical elements that these bodies want in their dealing operations.

Bänziger, with a pedigree of working in-house for institutions such as Swiss Bank Corporation, can make the most complex task sound simple. "We put in information distribution feeds and hook up the in-house applications so our customers can pass information around globally; we create one huge information bus."

The City of London appears to be awash with large high-powered consultancies and their technical teams all determined to win lucrative contracts to implement IT strategies. But despite this intimidating opposition, Bänziger spotted a gap in the market. "I set up CWB to address a huge niche. There was a real need to join up the business side of things with IT. We try to coach businesses to use IT appropriately."

This aim of focusing the technology to the real needs of each trading position highlights a sore point in the City's relationship with the IT industry. During the late 1980s institutions scrambled to install state-of-the-art dealing systems. Many of these projects appeared to be motivated by a desire to stay one step ahead of rivals without any real appreciation of the technical merits of the system.

A trader who could easily fulfil his role using an industry standard PC running a popular spreadsheet found himself driving a £10,000 workstation designed to manage sophisticated software way beyond his needs or capabilities. This overkill contributed to inflated IT budgets and kept an army of consultants in business. But it did nothing to improve the efficiency of expensive staff.

Bänziger remembers this era: "Only a small population of dealers saw a return on these investments, and even then that return was not too great. The technology was getting too sophisticated for the users."

She believes that vogue ideas have their place, but the application of the technology has to be clearly identified. CWB has worked on Nomura Bank's ambitious dealing room project where software house Applix provides a system that converts market information into a spreadsheet format instantly.

"The concept of a realtime spreadsheet means putting that spreadsheet in front of all the usual market data. At Nomura we are training some of the guys to use this, bnt this is financial engineering and it isn't what every position needs. The big issue is how to manage a trading floor and support the staff. That's why CWB gets so much business."

CWB sticks to its own agenda. "We do fixed price work. Not many people would do re-engineering from the coal face on a fixed price basis but we insist on it because we want to manage our own projects."

Formerly exotic technologies are now making an impact on Bänziger's projects. When the Unix workstation – a computer offering capabilities normally associated with advanced design projects – first appeared in dealing rooms, the purchase was not always based on rational planning. "Everybody started to buy Unix workstations, but they didn't have the right technical skills." With the rise of operating environments that can be bolted on to the front end of Unix systems, that power now makes sense in the working world of non-IT specialists.

Tibco, formerly known as Teknekron, has sold its Teknekron Information Bus since 1987. The TIB is a software product that facilitates the distribution of information between different types of terminal. Tibco's success, with 45,000 trader positions for the TIB worldwide, reflects the diversity of computers in dealing rooms.

Clients pay $4,000 to $10,000 per position for a system that Tibco business development manager Phil Hibberd characterises as "middleware". This means it sits between layers of technology, cutting out unwanted data by flagging those lines of information, such as the share price of one company or sector, that each position attaches priority to.

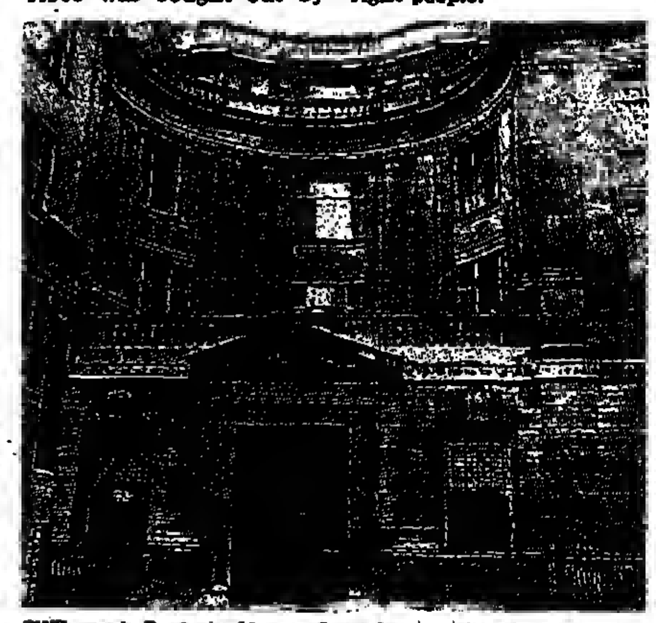
Although it is still run independently with its own board and $135m turnover, Tibco was bought out by rival Reuters for $125m in 1993. Most observers see this as a great compliment to TIB and a clear statement of the kind of service traders are demanding.

Sun Microsystems made its name bringing powerful Unix machines to a user community beyond the traditional Unix markets of engineering and scientific research. Now the $7bn company does $1bn of business in financial services every year. The UK financial services sector provides Sun with £70m worth of annual orders. It claims 55 per cent of Unix market trading and dealing systems sold worldwide.

So what makes Sun so popular with dealing floors? Matthew Frost, Sun UK marketing manager, traces this demand back to the move towards digital data feeds in the 1980s. Whereas traditional feeds had flowed down one hired line onto a single dedicated terminal, the digital feed meant different lines of data could be mixed and matched and displayed on one screen.

Unix technology came into its own in this environment, although Frost confirms it has taken several years for the City to acquire the necessary body of technical know-how. "Now buying Sun systems is pretty much a black box situation; you can buy the system and plug it in. The City has gained a huge expertise in Unix."

Sun machines sell for £4,000 to £50,000, with a typical Sparc 20 traders' workstation costing £10,000 tu £15,000. Kitting out a modern dealing room is not cheap. But according to a recent survey of London-based institutions by treasury dealing systems company Tantus, the number one dealing room cost is staff. Systems still take second place to the right people.



CWB counts Deutsche Morgan Grenfell among its clients

■ Outsourcing in financial services • By Nuala Moran

Savings financed new system

Since Andersen took over operations, the cost of Seaq transactions has fallen from 9p to 4p

There was triumph at the London Stock Exchange last week when the final phase of Sequence, the exchange's new trading and information system, went live. The fanfare marked not only delivery to time and to budget, but also the success of the outsourcing strategy under which it has cut the cost of its IT operations, using the savings to finance the development of the Sequence system.

When it decided to outsource the operation of a large part of its IT to Andersen Consulting in 1992, the stock exchange had an annual running bill for the systems concerned of £55m. As this figure was rising by 20 per cent a year, not only was IT digging a bigger and bigger hole in the finances, the system that the money was being lavished on was old, fragile and in need of replacement.

Since the deal was struck, the cost of maintaining the old system has been gradually reduced, producing cost savings of £50m. And this money has financed the development of Sequence which will cost £35m a year to run.

Although Sequence was formally completed last week, it has been introduced in phases since the end of 1994, meaning that the exchange has had to support the two systems in parallel. "Not only have we succeeded in bringing costs under control. What we have achieved is the delivery of a new market infrastructure at the same time as keeping the existing, semi-electronic marketplace going," says Christine Dann, director of business operations at the stock exchange.

"This is like pulling off the tablecloth without disturbing the dishes."

London's new settlement system, Crest, also performed its first live transactions last month. Mrs Dann said that together Crest and Sequence will give London a competitive edge over other markets.

"This is a technology leapfrog. The new infrastructure will give the market the ability to respond to change without the need for massive investments." For example, said Mrs Dann, the new structure allowed the junior, Alternative Investment Market, established just over a year ago, to be rolled out very quickly at no extra cost.

In addition, whereas the software code of the Stock Exchange Antomated Quotation System (Seaq) had to be rewritten every time there was a rule change, Sequence can be readily adapted to changing regulations.

Since Andersen took over operations, the cost of Seaq transactions has fallen from nine pence to four pence. Mrs Dann said Sequence would allow the exchange to bring down further the cost of its services.

This glowing assessment is a long way from the stock exchange'e depressed view of its IT systems in 1992. Since the introduction of the Seaq trading system in the "Big Bang" of 1986, when the market first moved to computerised trading, expenditure on IT had risen inexorably. At the same time the systems were getting very complex and difficult to opsrate, undermining the hub of the market. "It was costing us more and more for something we were less and less satisfied with," says Mrs Dann.

The stock exchange recognised it needed to get a grip. "We had to deal with the here and now of the legacy systems, stabilising the situation, and through agreed, planned investment, improve the situation to the point where we could continue to run them.

"In parallel, we had to make plans for a new trading system environment and a new information services environment.

"The overriding problem was, how in dealing with the here and now, could we also start to generate funds to move from the old infrastructure to the new infrastructure?" The rapid growth of outsourcing in the past four years has led to a general acceptance that it is not necessary to own your computer systems to control them. But outsourcing was far less in vogue in 1992 than today, and there was deeply entrenched philosophical opposition to such a move at the stock exchange.

Dann: 'Pulling off the tablecloth without disturbing the dishes'

IT lies at the heart of the exchange's activities. It was thought inconceivable that something central to its existence as a business, and as a public service, should pass out of the exchange's control.

In the end, rather than outsourcing the problem, the exchange opted to "insource" the expertise needed to deal with it. Under a five-year contract, 300 IT staff transferred to Andersen's payroll. However, in part to soften the outsourcing blow, the exchange retained ownership of the systems.

Ironically, the impression at the time was that the Taurus project to develop a new settlement system was nearing completion. Because it was regarded as unwise to cause upheaval at a critical stage, neither Taurus nor the existing Talisman settlement system was included in the deal. It was the intention that the operation of Taurus would be handed over to Andersen once it was up and running. But as it turned out, the stock exchange's IT strategy was in an even bigger mess than was recognised, and in March 1993 Taurus was axed.

Under the ontsourcing deal, the exchange still owned the trading systems. But Andersen was now responsible for operating them and providing the level of service specified in the agreement.

This allowed Andersen to reconfigure the resources. Better and more intensive use was made of equipment; processing was consolidated from five centres to one; the communications network was rationalised; more efficient use was made of disk storage; duplicetion of software was eliminated and disaster recovery was ontsourced to a third party.

At £50m, ths cost savings from this exercise are impressive. "But," said Alan Healey, the Andersen partner with responsibility for the contract, "The amount of unnecessary work and duplication of resources we found when we took over was probably no greater at the stock exchange than yon could find in other organisations." Given ths history, however, it seems fair to say that by 1992 the stock exchange had lost control over the cost and direction of its IT. One of the unforeseen side effects of handing over IT to an outside party is that the senior staff at the exchange have had to become more knowledgeable about IT, and have become more confident about managing it.

"Business managers learn through outsourcing. They understand how business decisions can affect, or drive, the use of IT," says Mr Healey.

As money was saved through streamlining and continnously improving the existing operations, it was put into the Sequence programme. Andersen has also been responsible for the development of the new system.

Mr Healey says that once "the tail of the Seaq system is unwound," the £35m-a-year running costs of Sequence will continue to fall.

The five-year contract between the stock exchange and Andersen ends in 1997, and Mrs Dann says the two partners are "now thinking about what to do next".

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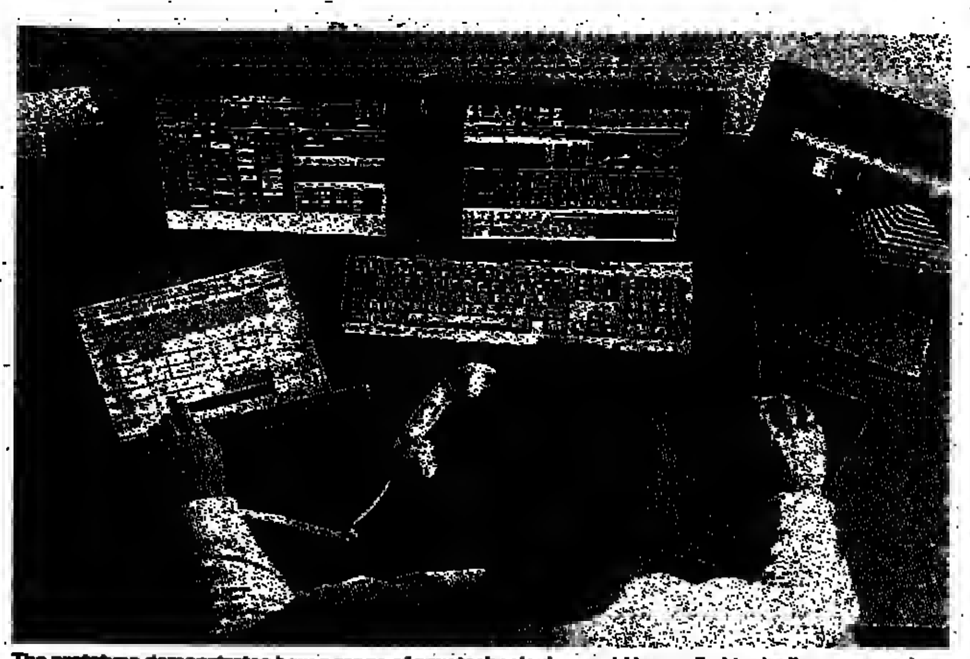
Office technology • By Nuala Moran

Workstation of the future

Syntegra will be inviting dealers to view the prototype and, through a series of workshops and seminars, generate ideas and feedback



The prototype demonstrates how a range of new technologies could be applied to dealing room systems

Flat screen technology, voice recognition, data visualisation, text summation, ATM (Asynchronous Transfer Mode) networks and virtual acoustics are just some of the key technologies that will be reaching the market within the next five years.

"The question for financial services companies is 'What do we do with all that?', says Mike Noy of Syntegra, BT's systems integration business. "Experience tells them they need new technology to stay competitive. But which technologies, and how should they be applied?"

Now, Syntegra has drawn these, and other technologies into a single computer platform – a commercial prototype of the dealing room workstation of the future.

"The prototype demonstrates how a range of new technologies could be applied to dealing room systems, and the competitive advantages that this could bring," says Mr Noy. Over the next few months, Syntegra will be inviting dealers to view the prototype, and through a series of workshops and seminars, generate ideas and feedback.

"This discussion will help to shape working practices in the City for decades to come," says Mr Noy. "It will have implications for how dealers relate to their clients, how financial products are delivered and how dealers build a presence in emerging markets."

For example, a dealer in London working through an agent in France need not wait for the French sales team to ring back. "This is slow and the price may have changed. Instead, there could be a loop, with the dealer, agent and customer linked simultaneously. Similarly, colleagues in different time zones can be fully informed and pick up each other's activities. New York can take over when London closes, but the customer still rings the same number."

Many of those viewing the prototype at BT's office in the City will have seen versions of the individual technologies at BT's research centre at Martlesham, near Ipswich, where they were developed. "But taken as separate technologies in a laboratory context, it is difficult for them to see what the implications are for their businesses.

"The idea behind bringing them together in one platform is to make it easier to appreciate what the impact will be, and at the same time give customers the opportunity to influence what we are doing." Syntegra also intends to establish a programme to help customers incorporate individual technologies into their existing dealing room systems.

The dealing room of the future is a very significant project for Syntegra. The company says it currently holds 25 per cent of the 45,000-desk world market. The stronghold is London, where Syntegra controls 65-70 per cent of the business. It also has 15 per cent of desks in New York, 20 per cent in Tokyo, and 50 per cent in both Hong Kong and Singapore.

On first sight, the most striking thing about the prototype is the flat screen monitors. These are only about one inch thick, giving vastly improved sight lines across a dealing room floor. The 13-inch screens have clarity equivalent to a 17-inch cathode ray tube (CRT) monitor. At present the monitors from Hitachi cost £2,000 to £3,000. But the price is coming down and Mr Noy expects it to fall to £1,500 by the middle of 1997.

The improvements offered by flat screens are more than cosmetic: they take up 30 per cent less desk space. "This could be very significant for some companies if it allows them to avoid an expensive move." The screens also use only 20 per cent of the power of a standard CRT monitor, and so require less air conditioning.

In the prototype, a personal computer controls the voice lines to the outside world in the same way as it controls the data links in a conventional networked system. The central server monitors what phone lines are active and keeps a record. This makes it possible to develop voice applications which will greatly reduce the need for note-taking and record keeping.

Deals struck on the phone can be automatically captured, or a dealer who wants to buy at price quoted earlier can simply instruct the system to call back the person who quoted that particular price.

The system can react intelligently to external events, for example, it will respond to the collapse of a share price by automatically bringing up a list of clients in order of the size of their holding in that stock. Clicking the mouse on a name prompts the system to ring that client so the dealer can discuss the position.

"We also see desk top video links becoming increasingly important, both in working collaboratively with colleagues and in dealing with clients." Mr Noy believes dealers will soon offer to install video links with key clients to improve the quality of communications. "In 10 years' time you won't talk to people without seeing them," he says.

Several of the current drawbacks of videoconferencing have been solved in the prototype. Advanced networking, and the high resolution of the flat screens mean that the picture does not flicker or break up. "Virtual acoustics" technology means that a person's voice comes from his or her image on the screen rather than a speaker on the desk.

One of the problems of desk-top videoconferencing is that no one has found a way of incorporating a video camera into a computer screen. Instead, they must be perched, bird-like, on top. Because participants are looking at their screen, not at the camera, it gives the impression they are avoiding eye contact. A project team in Martlesham is tackling this by developing software which morphs the video image in real time to create the impression of eye-to-eye contact.

Other technologies that Syntegra intends to offer "for discussion" include wireless networking, voice print microphones which will only transmit a specific user's voice, text summation for making an automatic precis of news stories and analysts' reports, text to voice realistic reading of text passages, voice recording and retrieval, and mass visualisation of data to create visual summaries of complex information and relationships.

"The aim of the prototype is to encourage discussion, not to sell systems. We have made a concerted effort to bring a range of technology developed in Martlesham together to give our customers an idea of what it can do for them," concludes Mr Noy. "Now we need their feedback."

IT recruitment in the City of London • By John Kavanagh

Brief calm before gale force storm

Staff numbers might have stabilised but new employment patterns and changing demands for skills are building up extra pressures

Allen: 'Banks have started questioning the large sums spent on IT'

A relative lull in frenetic IT staffing activity is currently being enjoyed by the City of London – but this is just a brief period of calm before the next storm, which will be gale force.

Financial institutions have apparently almost sorted out their IT staffing, but have some immovable deadlines, new competition and new technologies ahead which in some cases threaten their very survival.

"The market is a bit more stable than last year; not so volatile as in the recession and after, with more optimism," says Mr Alan Johnson who led a study this year for consultancy Price Waterhouse.

"Just over half the financial institutions said there would be no change in IT staff numbers this year: this was twice as many as last year. A fifth said there would be some increase and 15 per cent some decrease, but only small numbers said there would be big increases or cuts.

"One IT director reflected the views of many when he said: 'We've had our share of cuts and outsourced a large chunk of our operation. Now the turmoil is over, it's time to settle down and get on with the job'."

Even so, words such as "stable" are always relative in IT recruitment. Staff numbers might have stabilised but new employment patterns and changing demands for skills are building up extra pressures.

Mr Johnson points to moves away from central IT departments to distributed computing and networked PCs. "It is no exaggeration to say that the way IT is organised and delivered has undergone a revolution," he says.

This has had big impact, in several ways.

The Price Waterhouse study shows that the changing skills needed by City institutions have become one of the top issues in the past year.

Mr Johnson and others point especially to the need for IT staff to gain business skills, because they work more closely with end-users. A recent survey by consultancy Braxxon Technology found that almost 40 per cent of City firms felt their IT was only "moderately aligned" with business goals. Yet IT accounts for 15-25 per cent of business costs for 80 per cent of City firms.

"Banks have become focused on cost-effectiveness during the recession and have started questioning the large sums spent on IT," says Mr Gary Allen, managing director of Apex Computer Recruitment. "In addition, managers are increasingly coming from a generation brought up on IT, so today's IT specialists must have business skills, too."

In the City these business skills often have to be honed still further, according to Mr Jon Tyler, managing director of recruitment and software company Gatton Consulting Group.

"There is growing demand for people who know trading systems," he says. "In this area you need to understand bonds and derivatives and put up with people who might throw their workstations through the window. This isn't a job for a quiet techie but for someone robust with good business understanding."

Mr Tyler says people with the right skills here can command "some extraordinary rates" – a reflection of the fact that 60 per cent of financial institutions are considering or starting to replace their dealing systems, according to the Braxxon study.

Meanwhile demand for technical skills is expanding. Shifts towards end-user computing and more recently object-oriented programming put C++, Visual Basic and Powerbuilder at the top of the list for Gary Allen at Apex, with Sybase, Oracle, Unix and Microsoft Windows NT skills also in high demand.

Coutts Career Consultants adds Novell local networking skills and says good Unix or Novell support staff can command £30,000-£35,000 a year.

Jon Tyler at Gatton adds the venerable Cobol to the skills list, pointing especially to the increasingly pressing but often underestimated need to amend ageing central systems to cope with the date change at the turn of the century. The issue here is that dates are typically stored as YYMMDD, so calculations involving dates will produce errors when the year changes to 00.

Mr Tyler also points to the possibility of European monetary union, which will demand program changes worldwide even if only two countries go live in 1999.

Again, the skills needed here will range from Cobol to the latest languages as systems old and new need amendments. IBM, the world's biggest IT company, said just two months ago that the turmoil facing the industry was such that there was a compelling case for postponing Emu until after 2000, purely for IT reasons. A survey by IT services company Cap Gemini Sogeti found that 45 per cent of UK banks felt their IT would not meet the Emu schedule, a fact described by the company as "literally a commercial disaster", with some banks going out of business.

But other skills demands are also emerging as financial institutions find "stability" in their basic systems and in the staff needed to support and enhance them.

The Price Waterhouse study shows that more than 84 per cent of City institutions are planning to introduce front-office systems, including customer call centres, links between telephones and computer systems to retrieve information as a customer call is answered, and, inevitably, Internet services.

Skills in these speciality areas are in short supply and demand is growing: Price Waterhouse found, for example, that 27 per cent of City institutions are already preparing for significant use of the Internet and another 55 per cent have plans for the next 12-24 months. Mr Johnson says demand for skills will be further fuelled here by trends towards intranets: the use of Internet technology for internal networks.

In addition, banks are looking to IT to fend off competition from some previously unlikely sources, including retail chains offering financial services.

Such growth in applications, plus the Emu and year 2000 amendments, raise the question of where the staff are going to come from, especially as financial institutions are apparently holding their head-count steady.

The answer from many observers is the contract market.

"In the recession, contractor rates fell and banks saw they could get recruitment flexibility at a time of uncertainty," says Gary Allen at Apex. "Many managers who were very anti-contractor have changed their minds completely."

This is even extending to permanent staff: Lloyds Bank has started offering "permanent" contracts of different lengths to different people, and such fixed-term arrangements are gathering support.

All this adds up to considerable rumblings which threaten to disturb the relative stability of IT recruitment in the City in the very near future.

Johnson: 'The market is a bit more stable than last year... with more optimism'

Slow progress on a rugged road

Delays have dogged efforts to computerise all aspects of sales by intermediaries

Convoys can only move as fast as their slowest member. Until recently this problem hampered a project to set up electronic trading between insurers and the independent financial advisers (IFAs) who sell a big chunk of their products. But now small groups of companies are breaking ranks to pursue specialist developments on their own.

The aim of the project is for all the stages of a sale to be conducted on computer.

Huge savings should result. Ian McKenna, a consultant on systems for the life and pensions industry, calculates that it costs an average of £18 to produce one premium quotation. "If technology can reduce that to £3, that would be a huge step forward," he says. The total potential savings in this area alone are estimated at £60m a year.

Cost-cutting is important for both IFAs and the insurers who sell through them, thanks to some aggressive new competitors. These are high-street banks and telephone sales companies which provide a no-frills service at low cost to themselves and customers.

But setting up a network linking over twenty insurers and thousands of IFAs is tough.

Origo, a company jointly-owned by 24 insurers, has spearheaded the effort since its establishment in 1988. At first it concentrated on developing paper-based systems to standardise data capture by IFAs. This led to the production of low-cost back office software.

Then in 1991 it set up a joint venture – The Exchange – with AT&T Istel, to develop a sales and marketing hub for insurers and IFAs. Its new partner owned and ran Inview, a Videotex service on financial products, which became the basis of the project.

In December 1993 Origo and The Exchange launched the Common Trading Platform 1, PC-based software giving IFAs new flexibility and greater data storage capacity when using the Videotex service.

They released an updated package – CTP1.3 – last year to coincide with the introduction of hard disclosure: new regulations aimed at improving the transparency of sales. Insurers had to make performance illustrations more accurate and IFAs to disclose the commission they would earn from recommending a product. "Suddenly the information IFAs needed was much more sophisticated," comments Donald Hume, manager of Origo's consultancy division.

The current version, CTP 1.4, covers "plain vanilla" life insurance and pensions, giving IFAs an electronic means of conducting research, requesting and receiving performance illustrations from insurers and proposing clients for cover.

> Delays have prompted criticism of The Exchange and of Origo

The next step will be the launch of CTP Version 2. This will cover more product types and let IFAs service existing policies electronically – an example would be valuing the cash-in value of a policy – an important advance according to Edward Ratcliff, deputy managing director of Sun Life broker services. He says: "We are keener on the applications of electronic trading for existing, rather than new, business. There is more to gain in savings for both the insurer and the IFA."

The launch, expected this summer, has been postponed to October. Origo and The Exchange fielded flak for the flimsiness of CTP Version 1.3, rushed out to coincide with hard disclosure. They are keen to avoid a repeat performance.

The delays have prompted criticism of The Exchange and of Origo from insurers. A report on EDI development projects for the CTP by consultants at KPMG fanned the flames. It claimed that budget planning by the two companies lacked "commercial responsibility", that there was "a requirement for quality assurance and risk management at Origo," and concluded: "Bottom-line benefits may not be achieved because of the failure of projects to be adequately scoped and delivered."

Origo managing director Sandy Neilson, who commissioned the report, says he was "concerned about Origo and The Exchange's vast consultative structure". Now the flaws have been identified they can be dealt with, he promises.

"During the gestation period for electronic trading there was a serious need for consensus and homogeneity," Neilson says. "There has been frustration at the pace of change ... but as CTP matures, fast-trackers will develop competing products, while sharing standards."

One of the first breakaway projects is a collaboration between Scottish Life, Sun Life and Scottish Equitable. They are creating CTP software to handle company pension schemes.

Some insurers talk glibly of automating their central activity of underwriting, and establishing seamless interfaces between their systems and those of IFAs. They are jumping the gun. Around 3,000 of the UK's 8,000 IFAs still do not use the CTP. Among the sceptics is Martin Mullaney, a director of Brooks MacDonald Gayer, an IFA firm so IT-friendly that its advisers write letters using voice recognition systems. He says: "We have stuck to Videotex, because when the CTP first came out it wasn't very robust. Until someone's tested (the new applications) we won't be using it – there are too many hassles involved in being the first."

Jonathan Guthrie is 1996 Technical Pensions and Investments Journalist of the Year

CASE STUDY **Electronic trading at Lloyd's**

Deadlines pass quietly

While the London Stock Exchange's Crest settlement system was going live amid fanfare in July, an equally venerable institution – Lloyd's of London insurance market – was quietly seeing the deadline pass for its most ambitious electronic trading project so far.

The July 1 completion date for a system for negotiating and placing *underwriting business* electronically had already been put back from the January deadline laid down three years earlier. But cultural, human and technical issues, some outside the control of Lloyd's, have now led to deadlines being replaced by informal targets.

Lloyd's is no newcomer to electronic trading. It set up the London Insurance Market Network (Limnet) in 1987 with bodies representing brokers and underwriters, and Limnet has several successes under its belt. Limnet was formed to increase communication and efficiency among the 500 brokers and underwriters which do high-value business with each other through Lloyd's.

Brokers link directly to the Limnet data network, which is contracted out to IBM. Underwriters link through two bureaux. These were formed to *administer business* which is split between several underwriters: for example a bureau holds core details of a risk, eliminating the need for every underwriter involved to store this information and keep it up to date. Underwriters typically link to a bureau computer through terminals.

Limnet has 13 staff. It specifies applications, after gathering requirements and consensus among Lloyd's members, then promotes and supports introduction of the applications across the market. Project teams are put together from people seconded by Lloyd's members.

Limnet does not develop software: once a specification is agreed, the work is done by the underwriters' bureaux and by broker companies or by software houses serving the broker market.

Progress since Limnet's formation has been such that it handles far more *electronic transactions than* any similar insurance organisation worldwide. It processes more transactions in two days than the European network, Rinet, handles in a year.

It has led the development of electronic data interchange (EDI) messages in the insurance field. In 1992 it was joined in this work by Rinet and US industry organisations and together they are now acknowledged by the international EDI standards authority as the insurance message development body.

Today, about 90 per cent of claims messages in Lloyd's flows electronically through Limnet. Brokers say the system has reduced meetings and paperwork and speeded up settlement: one firm is handling twice the number of claims with just a 15 per cent increase in staff. Limnet also carries more than 90 per cent of all signings: these are simple transactions, such as direct debit advices on premiums

Lloyd's set up the London Insurance Market Network in 1987

and claims, yet electronic handling has again brought huge savings in matching *cash to clients*, risks and underwriters.

Brokers have armies of staff matching payments and business from overseas underwriters, but just a handful of people doing the same job on Lloyd's business.

EDI is used for 100 per cent of requests from underwriters to brokers to buy reinsurance on their behalf for certain risks.

Electronic placing support (EPS) has proved more difficult. It seeks to provide an electronic alternative to the personal visits and negotiation between brokers and underwriters that lead to a risk being shared by several members.

"Remote, electronic placing is not new: it's been done by telex and then by fax with overseas underwriters for years," says Limnet director Michael Burton. "But the *face-to-face negotiation* we have in London is a competitive strength."

Limnet has persevered because of the significance of capturing data about a risk at the start of the business cycle. Once the basic data is stored electronically it is available for all the subsequent signings, claims and reinsurance transactions. Consultancy Coopers & Lybrand has estimated that electronic placing could cut costs for the whole market by £100m.

The path has not been easy, however. An early version of EPS was specified for a trial in the early 1990s and proved successful enough for the January 1996 deadline to be agreed for 100 per cent electronic trading. But delays set in almost from the start.

"Lloyd's set the deadline because there was a general feeling that movement to EPS would not happen unless people were forced," *Mr Burton says.*

"The first system handled 75 per cent of what was *required but people said* they would wait for the second version, when all the functions would be provided. The 1996 deadline seemed a long way off, but there was an 18-month wait for software houses to develop the system.

"As the software became available, we had great difficulty persuading people of the scale of the task of rolling it out to companies and then to individuals in those companies."

Mr Burton is perhaps being diplomatic here: some EPS champions say that the desperate days of the early 1990s, when recession and a succession of big claims threw the whole future of the London market into question, had gone, and confidence was returning. People who were used to personal negotiation took *new attitudes to what they* saw as IT interference with the way they worked.

But technology limitations also played a part, as Mr Burton explains: "Electronic placing through EDI is complex. Personal negotiation is highly interactive and is supported by very large volumes of information. End-user screens and standard EDI messages with fixed-length fields do not lend themselves well to handling large amounts of unstructured information."

Limnet is now looking at splitting the information, with basic data put into *EDI messages* and back-up documents moving as electronic mail messages, perhaps as attached image files. "This is a short-term or medium-term expedient," Mr Burton says. "The Edifact authorities are looking at adding such attachments to EDI messages, but we can't wait for them. The X.400 messaging standard is supposed to handle this, too, but no one'e implemented X.400 fully."

At *the same time, Limnet* is specifying a compromise which allows traditional negotiation to continue for complex risks but records the outcome electronically. Once an agreement between a broker and a group of underwriters has been finalised, the negotiation documents can be added to the electronic record.

"This is something of a dilution of what we are all trying to achieve ultimately, but it does *support the way the market* operates today, instead of imposing new methods," *Mr Burton says.*

All these issues have combined to hit the deadlines. At the peak of the insurance renewals period last December, less than 10 per cent of business was done via EDI. Early that year the original January date for 100 per cent had already been put back to July 1996, but when that revised deadline arrived, electronic volumes were still running at no more than 15 per cent.

Mr Burton expects a dramatic increase once the "diluted" version goes live, probably next year. He believes 60-70 per cent of the 1997-98 renewals business will be done electronically.

Firm deadlines have been dropped in favour of informal targets, but Mr Burton believes the original *schedule served a useful* purpose: "We wouldn't be where we are today if we hadn't tried so hard to get further than where we are," he says.

John Kavanagh

Introduction • By Rod Newing

Market upheaval looms

The larger accounting vendors are working hard to enable their products to run on the Web, which is object-oriented

Dun and Bradstreet's SmartStream: 'At the leading edge of what distributed computing will become'

While many organisations are still implementing new Dos-based accounting systems, some of the leading vendors are addressing the latest technology trends. There is an important market upheaval on the horizon which will see some big names struggle and some new ones emerge as winners.

"Object technology will give companies independence from hardware platform, software language and data location," says Jack Hassal, chairman of the Object Management Group's Financial Task Force. "This will give them systems integration on a large scale. The ability to mix and match application modules will give a more level playing field and the big players will really feel the impact because of their massive applications.

"Small companies have a degree of enthusiasm, dedication, speed and foresight not possible in large organisations. The future is small organisations producing specialised objects. Accounting vendors will then compete on implementation, not specification."

Object technology is having a big impact on accounting systems vendors and is starting to affect users. Dun and Bradstreet Software, the recently sold subsidiary of the business information group Coda, the financial ledger specialists, and Lawson and Software 2000, the business software specialists, have already produced object-oriented packages.

SSA, another business software vendor, is taking it seriously enough to buy Softright and Integrated Objects, two specialist object companies, and now employs some of the best brains in the object world.

Forrester Research has highlighted the importance of object technology in its controversial report on SAP's R3. They believe that SAP are working on a new product, *built from scratch* using a distributed object design. "As soon as the market understands its direction, R3 will be branded an unattractive previous generation product," says Bobby Cameron, Forrester's Director of Packaged Application Strategies. "Dun and Bradstreet's SmartStream is at the leading edge of what distributed computing will ultimately become," he continues. "Their process design and workflow can create flexible automation."

Danish company Navision is an example of a smaller, more flexible, company to which Mr Hassal referred. Its object-oriented accounting package was the first to be "Designed for Windows 95" and has won widespread respect for its flexibility. For example, the UK's Civil Aviation Authority purchased Navision Financials, to work alongside its existing ledger system, as the only software which could be used to provide a fixed asset module which would meet its specific needs.

When the organisation was split into air traffic control and regulatory services, Navision was implemented for the latter.

"Making changes to existing systems is extremely fast, as is developing new modules," says Richard Brett, CAA's Group Finance Director. "We use existing Navision objects which are simple to modify. It is absolute magic. We are so impressed with Navision that we are thinking of setting up a solution centre to *help other people implement* it. Navision captures the imagination."

The Open Applications Group *(http://www.org)*, founded by American Software, Baan, Coda, Dun and Bradstreet, J.D. Edwards, IBM, Marcam, NEC, Oracle,

FT IT
Software at Work
Accounting packages

QAD, Peoplesoft, SAP, Software 2000 and Texas Instruments, cannot wait for object technology to provide systems integration. The group has been working for a year to provide integration links between its different products. It has already demonstrated Coda Financials working with Inventory modules from Marcam, Oracle and SAP.

"Although we are looking at traditional linkages, we have a close relationship with the Object Management Group and Microsoft for component objects," says Mr Phil Dawes, managing director of Coda International. "We have compared customer bases and contacts to identify a list of joint prospects. We are also setting up a Customer Advisory Council. It is looking positive, constructive and optimistic."

They will do well to convince the analysts. "The OAG is a wonderful idea," says Mr Cameron, "but it will never work. Their data structures are too tightly integrated. Changes in one place can have profound unexpected impact in other areas. When planning and control itches, fixed assets scratches. Standards are dictated by benevolent dictators and market success."

Simon Edwards, managing director of Systems Union, market leader in executive agency accounting systems, says: "Within the next five years, the Internet will be the *principle force* that all accountancy software suppliers will build their applications on and around. The Internet is the biggest revolution to applications ever, but it will sit beside traditional clients for a long time to come."

The larger accounting vendors are working hard to enable their products to run on the Web, which is object-oriented. Accounting systems could be an ideal application for network computers working on an internal corporate Intranet. There is also an anticipated need for many of the accounting modules to be made available to customers and suppliers on an external Web site.

"Outward facing applications are a source of competitive advantage," believes Mr Cameron. "This doesn't mean just order entry, so all applications must become customer-ready. The growing reality is that your customers and trading partners will become regular users of all your corporate systems. However, Internet computing will make many client-server technologies obsolete, so to address this need, buy outward facing applications from Internet-focused vendors like Vantive, Aurum and Scopus."

Although work is proceeding in this area, vendors have no experience to guide them. "The Web has caught everybody's imagination," says independent accounting software analyst Dennis Keeling. "It is a no brainer that it will take off, but it is still uncertain what form it will take.

"Workflow has always been an issue in accounting systems, but it is becoming increasingly important because of its ability to provide competitive advantage. Object technology and the Web are becoming increasingly important enablers which are bringing new urgency to an established area.

"Workflow is good for end-users because it provides productivity which Object technology and the Web won't," says Mr Keeling.

"Dun and Bradstreet have done well and Oracle and SAP have just produced good workflow engines. We now need the big six consultancies to build them into their business process re-engineering methodologies."

Computron has recently launched its Best Practice Object library which is a collection of pre-built workflow process models. They are based on benchmarking metrics developed with the Hackett Group, a leading consultancy. Workflow was also the key reason why Salomon Brothers became the first user of Dodge Group's payables package, although they were not a *user of its general ledger.*

Companies currently buy packaged applications defined by traditional boundaries, such as general ledger, order processing or accounts payable. "The dream alternative is for each organisation to specify a process and buy a collection of components that combine to automate the process, which is the space Lawson is targeting," says Mr Cameron.

"What makes this possible is component design. Forrester believes this is the future model for the packaged applications market and that by the turn of the millenium, traditional applications will be a thing of the past."

Activity-Based Costing • By Rod Newing

A solution for all seasons

New software partnerships are making activity-based business intelligence available to managers enterprise-wide

When you marry ABC with Olap [Online Analytical Processing], you end up with Activity-Based Business Intelligence, a solution which all managers want," says Chris Pieper, chief executive of ABC Technologies.

"It is really kicking our business into high gear in all parts of the world. Everybody has been waiting for *these technologies to come* together."

Activity-Based Costing ("ABC") and Activity-Based Management ("ABM") have been around for more than 10 years. Most forward-thinking companies have implemented them, or are in the process of doing so.

ABC is not a method of costing, but a technique for managing the company better. It is a one-off exercise which measures the cost and performance of activities, resources and the objects which consume them in order to generate more accurate and meaningful information for decision-making. ABM draws on ABC to provide management reporting and decision-making.

ABC is a management technique which has so far been beyond most general ledger systems. It involves a very detailed two-stage allocation process in which resources are assigned to activities, which are then assigned to products, services, customers, salesmen or distribution channels, on the basis that they use those activities. The calculations require costs and revenues to be combined with operational data on activity levels.

Data has to be transferred from the accounting system into a separate software package. Spreadsheet models were cumbersome and have been largely replaced by specialist software packages which are designed to combine cost and activity data and carry out the detailed calculations. Popular packages are Oros, HyperABC, CostControl and NetProphet.

However, they were PC-based and were poor at reporting the complex multi-dimensional cost model they produced. *Oracle Financial* Analyser has long been popular with specialist consultants, because it is client-server oriented and can report interactively from its Express multi-dimensional Olap database. One or two companies also built their application using other Olap tools.

However, the complex model needs to be built from scratch, so many organisations chose to use the specialist ABC software packages to produce prototypes, before investing in Olap tools. But in the past few *months* the specialist software vendors have been forging alliances with Olap vendors such as TM/1, Cognos and Arbor. This gives users the benefit of the ABC expertise already built into the specialist packages, combined with the powerful multi-dimensional reporting of the Olap servers.

More importantly, it gives *organisations* embarking on an ABC-ABM exercise an opportunity to build their existing management reports using the Olap tool first. They can then build the prototype and cost model using the specialist package and compare the results with traditional reporting.

An ABC model built on such a platform enables the same costs to be viewed as activity costs, product, customer or even channel costs as well as the traditional *cost centre and account* views.

"Our users don't want ABC in isolation, they want to bring ABC into their existing planning, budgeting and reporting cycle, and they want it across the organisation," says Martin DeVille, Oracle's Business Development Manager. "We tried to get in early at the prototype stage, but clients preferred *specialist ABC* packages. These only work at the early stages, so we have produced consulting templates. These give much more flexibility, so our users' systems all look very different."

> As usage of the data spreads, so more users will need to access it

The client-server architecture becomes more important later in the ABC project, when full-scale implementation accumulates actual data as part of a continuing ABM management process. As usage of the data spreads, so more users will need to access it interactively. Each month's data is subjected to detailed calculation and the volume of data increases very quickly.

"ABC explodes the numbers," warns DeVille.

Peter Quinn: real benefit

Chris Pieper says: "Our industry is drowning in data, so PowerPlay's ability to slice and dice it was a good fit. The data grows quickly, especially when sales data is added to give profitability. ABC used to be accessed by *accountants, and couldn't* deliver data to the desktop. Essbase now gives the scaleability which enables ABC to become an enterprise-wide tool in a large-scale roll-out..."

JBA is one of the few vendors to have developed its own ABC modula fully integrated into its general ledger. "The information it produces only gives limited benefit to end-users of the underlying data," says Peter Quinn, business develop*ment director.* "To get real benefit, you need to apply some form of Olap tool on top, to provide business intelligence. We have integrated CorView's Envisage tool, which allows end-users to request information and drill down in order to understand the vast volumes of data without having to understand the database structure."

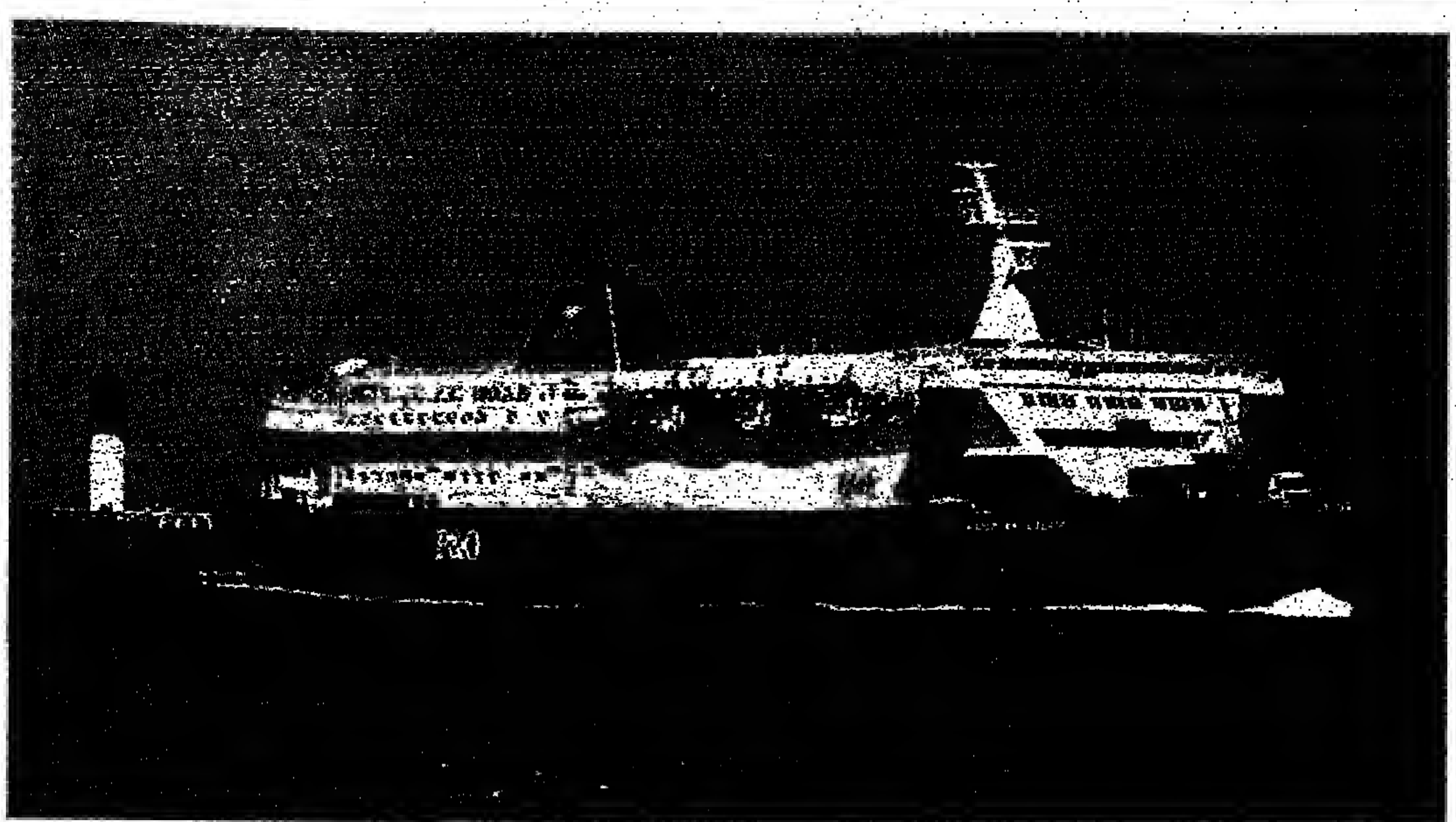
The Consortium for Advanced Manufacturing-International (CAM-I) is a non profit-making organisation which researches advanced management techniques and has pioneered ABC and ABM. Its membership consists of international businesses, academics and consultants from North America, Europe and Japan.

"ABC is a revolutionary advance in managing companies and software plays a vital role," says Tom Freeman, CAM-I's program director, cost management systems. "However, some organisations get caught up in software selection too early and get side-tracked into the specifics of the technology without having addressed the business issues first. Olap is very important later in a project, but the challenge is not the cost model itself, but data accumulation and integration from a diversified and geographically distributed organisation.

"While CAM-I does not provide evaluations of individual software developers, it is important to acknowledge the commitment that ABC Technologies and Armstrong Laing have made towards the co-operative development of enterprise-wide ABM solutions. Both of them are co-operating with industry, academia and consultancy through the CAM-I Enterprise-Wide ABM Interest Group.

"This will identify and overcome the barriers that industry faces in the implementation of ABM on an enterprise-wide basis to *advance the state* of the art in the best interest of all industry participants and practitioners."

Dr Peter Turney, chief executive of implementation specialists Cost Technology, warns: "It is important to note that combining ABC and Olap won't of itself give good data. However, if a positive methodology is adopted, they will give interactive access to which customers, products and channels are the most profitable. This gives managers a direct line of sight into the performance of their organisations."



Since P&O European Ferries installed Coda, the company has more than doubled its level of business but has cut its accounting department staff from 270 to 98

■ Implementing new systems • By George Black

Users focus on shortcomings

Most suppliers are facing a huge rewriting task to modernise their products and probably only a few have the resources to do it

Considering the very wide range of accounting packages on the market, one might expect to find a higher number of satisfied users.

The level of customer satisfaction with installed products is "dreadful", according to Mr John Tate, a director of the consultancy Tate Bramald. Users are more likely to talk of their complaints about the software they use than of the benefits they have derived from it.

Whether they will be much happier with the new packages which they are now buying is open to doubt. Although there are far too many suppliers in the field, most do not seem to have been able to come up with the capabilities that users want.

Many users worldwide are now investigating new systems, as much to get hold of the latest technical features as to add business functions.

They want user-friendly Windows front ends instead of character-based systems, networked systems instead of standalone personal computer systems and systems which can be more easily integrated with other business applications.

In many cases, they put flexibility at or very near the top of their list of criteria, knowing that no package is likely to deliver 100 per cent of what they want and that any choice will require modification.

But often flexibility is also lacking.

Although users say they want to move to a client-server software structure, Mr Tate questions whether any fully client-server systems suitable for use by multiple sites yet exist.

Many people want Windows versions of their installed software, but either their suppliers cannot deliver the goods or the systems have poor imitations of Windows. Most suppliers are facing a huge rewriting task to modernise their products and probably only a few have the resources to do it.

Some of the leading products are inadequately supported, even in some countries where good support might be expected. At the same time, other good products are little known because they are ineffectively marketed.

At the top end of the market, large and medium-sized corporate users have to choose between integrated products offering complete business solutions, and picking "best of breed" systems for accounting, manufacturing and other functions.

Systems Union software helps the Save the Children Fund in Liberia

Many organisations which operate internationally are looking to standardise. The charity Save the Children Fund is replacing more than 80 different bits of software worldwide with a single package from Systems Union. This was chosen as the best on multi-currency and multi-language capabilities, according to Mr Pete Smith, its information technology manager.

"It was the only one which could cope with the four different currencies of Liberia," he says, "and the only one which had both Arabic and Thai versions."

The package will be installed in more than 50 countries in the next two years. Mr Smith says it will help improve efficiency but more importantly will be proof to donors, especially government-sponsored donors, that the charity is being run efficiently and therefore worthy of support.

The ability to handle very large volumes of data is a principal criterion for some multinationals. P&O European Ferries, for example, has to deal with about 70,000 invoices a month.

When the increase in that volume compelled it to find a new package a couple of years ago, Coda was one of very few that could do the job on a Digital VAX machine, according to David Kelham, financial controller. Since installing Coda, the company has more than doubled its level of business but has cut its accounting department from 270 to 98 people. "It has taken days off our month-end process," says Mr Kelham.

At the bottom end of the market, small companies seek new systems for similar reasons but on a quite different scale. Primarily they want systems which are easy to use for people who are not computer experts and which can save them time and money in administration.

Vibratechniques of Brighton manufactures and sells machinery to large industrial and construction companies. It has a staff of only 18, but more than 500 customers and 300 products. Stock control is therefore a vital element of its accounting.

It began handling its accounts on an Amstrad personal computer. About 18 months ago it decided to move to a local area network and installed Sage Sovereign accounting software for use by seven of its staff. The system handles not only accounts but also stock control and the payroll.

"It has helped us to keep our staff down to a minimum," says managing director Greg Pearce.

At Onken Dairy, the small UK sales and marketing arm of a German dairy products manufacturer, Pegasus's Opera accounts package is linked to the Pegasus electronic commerce system Edition.

This has enabled orders to be received and invoices to be sent electronically and both transmitted directly to the accounting software.

"This has saved a lot of re-keying of data and guarantees accuracy," says financial controller David Moss. Five of Onken's staff are involved in running the system. The company will soon move to receiving customers' payments electronically, which should further reduce its paperwork.

In the public sector, accounting systems upgrades have been largely driven by changes in government policy, particularly the introduction of compulsory competitive tendering and the conversion of departments into agencies.

Privatisation of accounting departments and their computer systems, or the prospect of it, has led to many new, more commercially-oriented systems being installed.

The adoption of an internal market in local authorities, with schools becoming responsible for their own budgets, has had the same effect.

Hertfordshire County Council retained its central mainframe for running a general ledger, but three of its branches opted to downsize to accounting systems on Unix servers running Tetra applications.

David Cowan, head of business and finance in the property department, says they took this route because they believed they could handle their accounts more cheaply in this way than on the mainframe, even though that had been outsourced.

Although it took six months to tailor the software from Tetra and K2 Systems to their requirements, he says it proved worth the effort by making the department better able to cope with changing demands.

■ Internationalisation • By Rod Newing

The global debate

The provision, use and support of international accounting software is more complex than the vendors suggest

There appears to be a growing demand for global accounting systems capable of being implemented at a company'e head office and to each of the company'e subsidiaries anywhere to the world.

Snch a package would need to handle multiple currencies and languages, support international trade and meet the local regulatory and fiscal requirements of every country in the world.

Yet, although many vendors claim to provide truly international products, the idea that a global package is essential, is questionable.

Firstly, not every multinational company has identical businesses in all parts of the world. A diverse organisation may elect to allow each operating unit to select the accounting system and chart of accounts most suitable for its business. Financial consolidation can then be carried out using a specialist package from vendors such as Comshare or Hyperion.

Alternatively, the organisation may hsve subsidiaries in similar businesses, but of differing sizes. Such an organisation may prefer to use a powerful but complex accounting package to give it a competitive advantage at head office and in its biggest operating units, but may use a second, more modest, package at smaller subsidiaries which cannot justify supporting the larger package.

Again, using apecialist financial consolidation packages allows two different accounting systems to co-exist happily in the same organisation. However, where the business model is similar in each country, standardising on a single accounting system and chart of accounts worldwide may be the best approach. In this case, the accounting system may even carry out financial consolidation itself. However, users must take care to distinguish between true financial consolidation, requiring a number of eliminations, adjustments and journals, and simply adding up ledger accounts, which is all some accounting systems are capable of.

There is not yet a global product which meets the requirements of every single country. Several vendors, such as Coda, JBA, Oracle, SAP, Scala and Systems Union, have products which will meet most of the needs of head offices and important operating units. There are also many accounting packages which claim to be specially written for international companies, but which lack much of the essential functionality which these other packages embody.

Many vendors confuse "localisation", which is the ability of software writtan for one company to operate effectively in another country, with "internationalisation", which is the ability of the software to support operations in a wide range of countries and betweeo currencies. Localisation is an expensive and unrewarding process which provides few benefits. Truly international software must be designed as such from the ground up, because it affects the fundamental architecture of the package.

There are two fundamentally different approaches to internationalising software. The first is to maintain e aingle central source code which can cope with all requirements around the world. The other is to use local resellers to customise the original code, using their own in-depth knowledge of the local market to make the required cbanges.

However, all the vendors with truly international products agree oo the importance of maintaining a single set of codes. This central control tends to slow down the pace of localisatioo, but provides a more robost solution. It also provides economies of scale, because adding core functionality to meet the specific demands of ooe country usually meets eimilar requirements in other countries.

> Clearly, the need for international packages is going to grow

Local customisation seems attractive and can be carried out quickly. However, changes made in the core product can destabilise a reseller's local code. It can leave individual subsidiaries locked into earlier versions of the product until local customisation has caught up with the core product. It can also change the look and feel of a product, which may be one of the attractions of using a truly international product.

Support is an area which causes problems. Many experts believe that support should be controlled centrally, with first line support being provided internally, which can save money. It also helps to ensure that the organisation has a standardised configuration and allows better control over the relationship witb the vendor.

Both internal and external support needs to fit in with the business hours of users, however. For example, US companies have tried to provide support io Europe from California, where tbere is only a two-hour overlap.

Some vendors prefer to supply support in the local language using local expertise. The drawback of this is that local changes in configuration or "bug fixes" might be made without other parts of the organisation benefiting from the solution, thus destroying the common international model.

Swedish company Scala has a policy of purchasing a local company when it enters a new market, or working with a leading consultancy where none is evaileble. This provides local expertise and support for its centrally controlled code.

International pockagea tend not to dominate national markets, so an alternative atretegy is emerging, which is to expand by acquisition. Sage, which domioates the UK accounting market for small- to medium-sized companies, has purchased two Frencb companiea to become the domioant compaoy in France, as well as Daceasy, a successful US budget-priced package. It will continue to expand by acquisition, with its approach driven by the need for strong local branding and good distributioo, whicb smaller companies need. However, this strategy requires it to maintain a series of local products, rather than a single international product.

Clearly, the need for international packages is going to grow, just as local fiscal and legislative requirements are going to increase and constantly change. Choosing an international package requires an understanding of bow it is written, used and supported. The answers may not be a simple as some vendors may suggest.

■ Budgeting and forecasting • By George Black

Old systems may be running out of steam

In many cases, users are looking for systems which are tailored to the needs of their own market sector rather than general – purpose products

Budgeting and forecasting are functions which are increasingly sought in software packages.

The reasons for this trend are unclear. It may be partly because business horizons are lengthening after the end of economic recession. And business people may be gradually becoming more optimistic about their commercial prospects and starting to plan a little further ahead.

But growing interest in budgeting could be a sign that competition is getting tougber and that businesses have to change their prices and revise tbelr budgets more often. Whereas a few years ago most budgets were made annually and either fixed for that time or revised once only at the half-way stage, now they are oftan made on a monthly or weekly basis.

In some cases, businesses are changing prices day by day to keep up with competition – and are changing their forecasts based on new information gathered about customers' buying petterns. This calls for much more flexible and sophisticated methods of budgeting and buslnesses are therefore seeking more complex software than their old bespoke, often spreadsheet-based systems.

Many users of corporate accounting systems adopted thair own spreadsheet systems based on Lotus 1-2-3 or Microsoft Excel because they were not satisfied with the budgeting capability of their accounting system. Bnt these old systems may now be running out of steam.

"Spreadsheets can't handle this any more," says Mike Coveney, marketing director of business software developer Comshare.

In many cases, users are looking for systems which are tailored to the needs of their own market sector rather than general – purpose products. Users can pay anything from £100 to £100,000 for a budgeting system, depending on the complexity of their requirements.

There is no one right way of budgeting, according to Peter Quinn, international business development manager at the leading UK software developer JBA. "Some companies do budgets within their accounting system; others do it separately," he says. "Even within one company there may be different ways of budgeting in different divisions. It is up to software developers to allow users to budget however they choose."

Accounting packages and integrated business suites now offer more options for handling budgets to suit the many different ways that companies like to do it.

JBA'a business suite, for example, performs budgeting within its general ledger but also provides interfaces to a range of external systems.

Alongside the very wida range of accounting software which includes soma form of budgeting facilities, a few products have been developed whicb concentrate exclusively on budgeting. These generally have more than enough budgeting functions to suit the most demanding users.

At the lower level, the general move from personal compnters running tha Microsoft Dos operating system to Microsoft Windows has brought a new crop of relatively simple budgeting packages.

One snag with separate budgeting systems may be in moving data between them and the eccounting suite. Many acconnting packages are not good et importing end exporting data to and from budgeting systems and this can lead to a lot of re-keying of data which is time-wasting and increases the chance of errors creeping in.

Data transfer can often be done using one of a number of standard methods, such as the CSV (Comma Separated Values) format or through Microsoft's DDE (Dynamic Data Exchange) system.

If both accounting and budgeting packages are compliant with Microsoft's Windows operating system, data can be transferred invisibly to the user at the push of a bntton, using DDE. This comes with all applications which are certified by Microsoft as Windows-compliant.

> Re-writing applications to a new operating system is a big task

It is likely that a standalone budgeting system, having been recently developed, will be Windows-compliant. But many of the dozens of accounting packages are strictly "legacy" systems based on older operating systema. Many of these claim to be Windows-compliant but are not, according to Mr David Pepe, consultancy director of Kewill Omicron, the accounting software arm of Kewill Systems.

Much software is dressed np to look like Windows and has a Windows front-end, bnt users should look for products which are certified by Microsoft as Windows-compliant, he says. Re-writing applicetions to a new operating system is a big task which takes a lot of time and money. Only a minority of vendors have so far got around to supporting Windows fully.

Users may also be well advised to choose prodncts which comply with Windows 95, the newer version of the operating system. This is not only faster in processing but is less likely to crash – and if it does crash, it is less likely to lose work-in-progress by users of the accounting and budgeting systems.

The move to Windows should in due course greatly boost the market for budgeting software, because ease of use is the forte of Windows and also what users of budgeting systems are most likely to want.

"Bndgeting systems are like automatic teller machines," says Mr Pepe. "What they do is extremely complicated, but the user does not want to have to see what goes on; he just wants his questions anawered quickly and easily."

Among the newer products designed to bandle budgeting separately from accounting is Winforecast from the small British company Pase. Founded 2½ years ago, it hopes to become a leader in PC budgeting systems, aiming meinly at small and medium-aized businesses which have up to now laid out budgets on spreadsheets.

Pase's managing director, Bob Black, says that the main reasons for switching from spreadsheets to dedicated systema are ease of use, time-saving and better presentation. He argues that many people prefer to do their budgeting separately from their accounts because the accounts aystem gives them too much detail and tends to obscure the overview that they are seeking.

Many companies are tackling budgets with other types of software such as executive information systems, online analytical processing (Olap) tools or multi-dimensional databases.

Comshare's Mr Coveney argues – contrary to Mr Black – that this is a better approach because such systems can provide an extra level of detail which is absent in most sccounts ledgers.

• FT-IT DIRECTORY • ACCOUNTING & BUSINESS •

1-2 SANDERSON

Tel: 0114 282 7777
Fax: 0114 282 1340
E-Mail: SeanH@Sanderson-cbt.co.uk

For Premier Computer Solutions

Sanderson is the UK's premier open systems supplier of computer solutions and related technology and networking services with 15 offices in the United Kingdom and operations in Australia, USA, New Zealand and East Asia. *Sanderson has developed and owns an extensive portfolio of software packages for a wide* range of industries and applications including:

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Finance and Distribution	Airports	Production Monitoring
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Credit Management & Collections	Multimedia & CBT Training	Document Image Processing

Geographical Coverage: International

SANDERSON COMPUTERS

3 Navision Software UK Ltd

Elstree House, Elstree Way
Borehamwood, Herts WD6 1SD
Tel: 0181 207 4141 Fax: 0181 207 2444
E-mail: sales@navision.co.uk

Navision Financials was the first accounting and business management product to earn the "Designed for Windows '95" accreditation, and more *recently, "Windows Office Compatible" logo.* Navision Financials offers real integration with standard desktop services, as well as a familiar interface which makes it fast to learn and easy to use.

Operating Systems
Navision Financials supports graphical 32-bit technology and genuine multi-tasking. The following operating systems are supported.
Client -16 bit - Windows 3.1, WIN-OS/2 on IBM OS/2
Client -32 bit - Windows 95, Windows NT (Intel)
Server -32 bit - Windows 95, Windows NT (Intel), Windows NT (Alpha), IBM AIX, IBM OS/2, HP-UX.

4 McKeown Software

Rutherford Close
Stevenage, Herts SG1 2EF
Tel: 01438 315405
Fax: 01438 315557

McKEOWN SOFTWARE has been supporting business change for over twenty years. With over 400 clients in a wide range of industries, our technologically advanced flagship product, INTEGRA, is a proven, robust, secure, integrated and optionally client server business solution.
Hardware/Compatibility:
UNIX, Open systems, Open VMS, client server, RDBMS, GUI & character-based
Geographical Coverage: UK and Ireland
Applications: Integra CS
Financial Management System
Cost: Mid-range,
20+ users,
£20k++

BASDA

McKEOWN SOFTWARE

5 Bank Rec Software Ltd

20 Beech Glen, Bracknell
Berkshire RG12 7DQ
Tel: 01344 306306
Fax: 01344 425636

The absence of speedy and reliable reconciliations is a common feature of business disasters. Not any more. Our product completes reconciliations effeciently and by saving staff time, pays for itself in a few months. It offers you.

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6 The CODA Group Plc

Cardale Park, Beckwith Head Road
Harrogate, England HG3 1RY
Tel: +44 (0)1423 509999
Email: Liberation@coda.demon.co.uk

CODA develops international accounting for large national and multinational organisations, on all *major technologies. CODA-Financials has a unified* design for faster consolidation and reporting: sophisticated multicurrency, multicompany, intercompany facilities.

Hardware/Compatibility
Unix or Windows NT platforms, any leading relational database

Geographical coverage
25 sales and support offices worldwide, plus distributors

Cost
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CODA Liberation Systems for Enterprise Accounting

7 Kewill-Omicron (Dynamics)

Case House, 80-85 High Street
Walton on Thames KT12 1DL
Tel: 01932 248328
Fax: 01932 221662

Dynamics is a multi national, multi currency accounting system designed specifically for *Windows. Voted "BEST CLIENT SERVER SYSTEM"* EDITORS CHOICE, and REVIEWERS CHOICE in THREE key Software comparisons, Dynamics is fully scalable and true 32bit. Kewill-Omicron, part of a £40m turnover Group, is Europe's No.1 supplier.

Hardware/Compatibility: Network, Clientserver, Windows 95, NT, Intel, Alpha range

Geographical Coverage: UK, Europe, USA, Australia

Applications:
Accounts, SOP, POP, SControl, etc

Cost:
£6,000 +

DYNAMICS

8 MACONOMY (UK) LIMITED

10-12 Carlisle Street, London W1V 5RF
Tel: 0171 7340001
Fax: 0171 7340002

Maconomy is an advanced and completely integrated solution, operating in a true client/server *environment running on windows and/or Macintosh.* Our software is a fully functional, financial and management database, incorporating dimensions general ledger, advanced time/cost management, *complete stock order processing. Use of industry* standards provides the customer with a robust yet highly flexible product, which can easily be tailored to meet their exact needs.

Hardware/Compatibility
All leading unix platforms,
NT platforms,
Windows (std/95/NT),
Macintosh, Oracle, Sybase

9-10 Lawson Software

Capital Place, 120 Bath Road
Hayes, Middlesex UB3 5AN
Tel: 0181 7548470 Fax: 0181 7547766

Lawson Software is one of the world's *fastest-growing business software vendors,* with over 2000 major clients worldwide. The LAWSON INSIGHT Business Management System incorporates sophisticated, future-proof client/server technology including Web-deployability, Activity-Based Management/Costing, Workflow, Electronic Commerce, and Process-orientation. An open, fully-international design; LAWSON INSIGHT supports multi-currency, multi-national, multi-lingual operations, and is fully *scaleable to the largest corporations.*

Hardware:
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Applications:
LAWSON INSIGHT Business Management System: Financials, Supply Chain, Procurement Management.

Coverage:
FT2000

LAWSON Software

11 ERI Bancaire S.A

4-6, Avenue Industrielle
CH-1227 Geneva-Switzerland
Tel: 44 22 3421229 Fax: 44 22 3430912
Also in Luxembourg, Paris, Zurich

OLYMPIC, the high-end integrated and interactive banking software. Full coverage of banking needs: portfolio management, trust, stock exchange, FOREX, money market, payments, credits, accounting, risk management, communications, all *types of financial instruments.*

Hardware/Compatibility
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Geographical Coverage
Worldwide, 110 installations in 15 countries

Applications
Banking front & back office system

12

BASDA BUSINESS AND ACCOUNTING SOFTWARE DEVELOPERS ASSOCIATION

Templestowe, Longbottom Lane,
Seer Green, Beaconsfield,
Bucks, HP9 2UL
Tel: 01494 431768
Fax: 01494 432885

BASDA - the Business & Accounting Software Developers Association - the trade association of the business software industry aims to promote quality *in software and services. Members include all the* leading authors of software for finance, distribution, manufacturing, human resources, payroll and executive information systems.

13-18 De La Rue Fortronic

Donibristle Industrial Estate, Dunfermline
Fife KY11 5JU, Scotland
Tel: 44 (0)131 459 8800 Fax: 44 (0)131 479 8404

De La Rue is probably best known as a security printer of banknotes and cheques. However, through its **Transaction Systems Division** De La Rue is also at the forefront of newer methods of transferring value.

One of the business units within De La Rue Transaction Systems is **De La Rue Fortronic.**

For over 15 years, De La Rue Fortronic have been actively involved as a provider of a complete range of electronic solutions for the acceptance of smart and magnetic *stripe cards at the point of sale.* The De La Rue Fortronic terminal range is founded on expertise in processing credit, debit and charge cards. That expertise has now been successfully channeled towards smart card initiatives. The point of sale electronic purse terminals and software for Mondex in Swindon, UK and Guelph, Canada and the VisaCash system at the Olympic venues in Atlanta were developed by De La Rue Fortronic.

De La Rue Fortronic also developed the software for and supplied all the terminals and related security algorithms to the Shell Smart Loyalty Scheme operational across the UK.

Additionally, De La Rue Fortronic is the largest independent processor of *Utility transactions in the UK, providing an* end-to-end solution from merchant qualification through terminal placement to transaction processing - a complete managed service catering for all types of customer payment.

The geographic coverage of the company includes Europe, the Middle East and North America, with offices in Dunfermline, Scotland: Frankfurt, Germany: Wisconsin, Georgia and Ohio in the USA andToronto in Canada.

De La Rue Transaction Systems also includes:

- De La Rue Card Technology - Europe's leading manufacturer of secure plastic payment cards, smart card systems, personalisation and mailing services;
- De La Rue Identity Systems - The world's leading supplier of integrated solutions for driving licences, passport issuing, national identification and electoral systems;
- De La Rue Faraday - the USA's leading provider of magnetic stripe and smart card personalisation and distribution services;
- McCorquodale Security Cards - *manufacturer* of secure plastic cards for the financial markets in North and South America;
- De La Rue Applied Systems Institute - *specialists in open* system integration and leading industry providers of integrated smart card solutions.

For De La Rue Fortronic please contact Bill Tennent on 0131-459-8800.

For all other Business Units please contact the Electronic Payments Group on 01256-29122.

DeLaRue

DE LA RUE FORTRONIC LIMITED

19 Hyperion Software

Toft Hall, Knutsford, Cheshire,
WA16 9PO
Tel: 01565 633744
Fax: 01565 634154

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0121 456 0392

Hyperion Software

20 Adaytum® Software

13 Great George Street
Bristol BS1 5RR
Tel: 0117 9215555
Fax: 0117 9227749

Adaytum® Software is a leading provider of budgeting & planning software solutions. It's flagship product, Adaytum® Planning is a business *planning system designed for complex budgeting,* planning & performance analysis. Applications indclude Budgeting, Product Profitability, *Forecasting, Management Reporting, Consolidation.*

Cost
Entry level £7,500

ADAYTUM software

21-24 Hewlett-Packard Limited

Hewlett-Packard Limited
Financial Services-Europe, 5 Tudor Street, London, EC4Y 0ED
Tel: 0171 936 8754

VirtualVault

On Wednesday, October 18, 1995 Security First Network Bank, made history by opening the first on-line bank on the Internet. The security software was created by SecureWare, Inc., one of the US's premier secure software manufacturers, in cooperation with Hewlett-Packard. Since HP's acquisition of Secureware's web technology in February, 1996, HP has been working to prepare the product, VirtualVault, for general commercial release.

In September 1996, the first European Financial Institution will go live on the Internet with VirtualVault. Novit, a leading Norwegian outsourcer, will provide a full range of banking services via its member banks. The VirtualVault is based on a B1 trusted operating system, and offers much higher levels of security than is found in traditional firewall products. A number of other European banks are already developing solutions based on VirtualVault.

HP's Financial Services Business Unit (FSBU), part of the company's Computer Systems Organization, works closely with world-class partners to design and build industry-specific and customized open-computing solutions for banks, insurance companies, security firms and other global financial-services organizations.

http://www.hp.com/go/fsi

As part of an overall focus on solutions for Customer Service Delivery, the FSBU offers a complete infrastructure for secure end-to-end internet banking, including:

- Strong client/user authentication
- Strong encryption
- Highly secure (B1) web server
- Key & certificate management
- Legacy integration

If you would like more information on HP's secure Internet Banking offering, send an e-mail to **caroline_commander@hp.com** or telephone on +44 (0)171 936 8754.

Hewlett-Packard Company is a leading global manufacturer of computing, communications and measurement products and services recognized for excellence in quality and support. HP has 106,300 employees and had revenue of $31.5 billion in its 1995 fiscal year.

HEWLETT® PACKARD

25 Softworld in Accounting & MEIS

1-2 October 1996, NEC, Birmingham
Tel: 0181 541 4865
Fax: 0181 974 5188
Email: softworld@softinfo.com

Softworld in Accounting & Management/Executive Systems is the definitive event for senior financial and business executives looking for accounting and reporting software. Organised in association with The Financial Times and supported by the Institute *of Chartered Accountants and BASDA, the event* comprises a comprehensive programme of product demonstrations, special seminars on related topics and a highly focused exhibition, together with the Industry's leading Directory of accounting applications.

softworld

26 DST International

DST House, St Mark's Hill
Surbiton Surrey KT6 4QD
Tel: 0181 3395565 Fax: 0181 3907000
Email: [illegible]

DST International is the leading supplier of software and services to the asset management industry. With 14 offices in five continents, DST International provides a unique and comprehensive range of multi-asset investment management and work management software solutions to over 500 clients *in 35 countries. The parent company, DST Systems* Inc, services over 2000 mutual funds and 38 million accounts, with 1995 revenues of $484 million.
Hardware/Compatibility:
Multi-platform
Geographical Coverage:
International
Applications: Open Front Office, HiPortfolio, GPS, AWD

DST INTERNATIONAL

27-30 Comshare - The Decision Support Company

22 Chelsea Manor Street, London SW3 5RL
Tel: 0171 351 4399 Fax: 0171 376 5127

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Company Description

NEW - Commander Decision™ is a dynamic new decision support application for analysts, managers and executives that promotes innovative thinking, identifies alternative courses of action and monitors progress. Its desktop interface presents business intelligence in five ways: graphically with charts; geographically with an integrated mapping system; visually, with colour-coded exception reporting; analytically with ad hoc queries and calculations; and pro-actively with Comshare's innovative alert system, Detect and Alert™.
"Commander *Decision's is a truly formidable decision support application.*" Bruce Lynn, Solution Developer Manager, Microsoft/UK

Hardware/Compatibility

Commander Decision is an entirely new, client/server 32-bit software product. Client platforms include Microsoft's Windows 95, Windows NT 3.5 or Windows 3.1 (Win32s) operating system. Server platforms include Microsoft's Windows NT (Intel), *IBM's OS/2; or Hewlett Packard's HPUX* operating System.

Geographical Coverage

Comshare is a global company providing software and support in 40 countries

Applications

Commander Decision's Microsoft Windows™ interface brings relative ease to the difficult challenges of:

- EIS/key performance indicator monitoring
- sales and margin planning
- sales and *marketing analysis*
- product and customer profitability analysis
- financial reporting and analysis
- budgeting
- merchandise planning and tracking

COMMANDER DECISION

31-32 FRASER WILLIAMS

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AGRESSO is a Windows-based 'true' Client/Server Financials, Projects and Logistics system.

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Database: Oracle, Ingres, Sybase, MS SQL Server, Informix

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Medium to large corporates in most market sectors including engineering/construction, finance/banking, professional services, retail, utilities and the public sector.

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Kimberley House, 47 Vaughan Way Leicester LE1 4SG
Tel: 0116 253 3300 Fax: 0116 251 5353
Email: 100125.1601@compuserve.com

AGRESSO

FT-IT DIRECTORY INDEX (ACCOUNTING & BUSINESS)

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FT-IT DIRECTORY

1–4 QSP - World Class By All Accounts

5th Avenue Business Park, Team Valley, Gateshead NE11 0XA
Tel: +44 191 402 3333 Fax: +44 191 402 3636
e-mail: marketing@qsp.co.uk www: http://www.qsp.co.uk

QSP™ - our track record

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We've earned a reputation for applying proven advances in IT in innovative ways, that deliver tangible benefits, and backing our products with comprehensive services delivered by experts with real-world experience.

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Universal OLAS® - a rich information framework for beyond the Year 2000
Our extensive R & D programme built a next generation financial system from the ground up. Universal OLAS exploits new client/server & database-technologies from the mainframe through to UNIX and has been Year 2000 compliant since 1988. Using our enabling technology, MXPE®, Universal OLAS has been developed to provide a unique, low risk approach to client/server with a fast, manageable, cost effective transition from legacy to open systems.

Extensive work flow functionality is available and our GUI enables intuitive and secure integration with popular desktop applicaions for powerful reporting. In addition, leading value added electronic commerce products continue to be integrated into Universal OLAS, providing customers with the freedom to choose from other 'best of breed' applications.

The Universal OLAS products range includes: General Ledger, Accounts Payable, Purchase Order, Accounts Receivable, Asset Management and a host of supporting and industry specific modules that leverage your most valuable asset - information.

QSP & Universal OLAS
Helping you utilise the potential of your enterprise

Quality Software Products

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Reada Court, Vachel Road, Reading, Berks., RG1 1NY
Tel: 0118 951 0055
Fax: 0118 951 0066

AGRESSO
World Class Business Software

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'Enterprise' is the first true 32-bit Client Server accounting system for Win95/NT, which also has an optional DOS interface, both of which have full multi-currency, open period, powerful drill-down and drill-across features.

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Tel: 01202 298008 Fax: 01202 298001

7 Sterling Software (UK) Ltd

1, Longwalk Road, Stockley Park
Uxbridge, Middlesex, UB11 1DB
Tel: 0181 8678000
Fax: 0181 8678001

Sterling Software (UK) Ltd, part of Sterling Software Inc, provides software products and services worldwide for electronic commerce, applications management and systems management. Sterling Software is one of the ten largest software companies in the world with 3,600 employees, 75 offices worldwide and almost 40,000 customers. In the UK more than half the 50 largest companies listed in the Times Top 1,000 use Sterling Software's products.

Hardware/Compatibility
Multi-Platform

Geographical Coverage
Worldwide

STERLING SOFTWARE

8

1 Hammersmith Broadway
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Tel: 0171 3124545
Fax: 0171 3124546

SunSystems is the complete, international, client/server business solution from Systems Union. Installed by over 10,500 companies in over 160 countries, its global application is enhanced by full multi-company and multi-currency processing and availability in 22 languages.

Hardware/Compatibility:
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Geographical Coverage:
19 offices worldwide in the Americas, Europe and Asia Pacific

Applications:
SunAccount, SunBusiness

Cost:
On application

Systems Union

9 PERWILL - EDI

Company Description
PERWILL-EDI, an award winning Electronic Commerce Solution installed in over 60 countries on 6 Continents, is available from its authors in the UK.

For full details of the Perwill range of products, (that run on over thirty different Operating Systems), training and Consultancy services please contact:

Perwill, 13a Market Square, Alton, Hampshire GU34 1UR, United Kingdom
Tel: +44(0) 1420 545000
Fax: +44(0) 1420 545001

PERWILL

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SABRE Computers International Ltd
Tel: 0181 681 8241 Fax: 0181 688 1848
Contact: Colin Pizey - Sales Director

SABRE

11 International Business Systems

1 Imperial Place, Elstree Way
Borehamwood, Herts WD6 1JN
Tel: 0181 2075655 Fax: 0181 2075770

Company Description:
IBS is a wholly owned subsidiary of IBS AB, a Swedish public company and one of the leading software suppliers with over 3000 customers worldwide. The ASW Portfolio is a full range of application software with a GUI interface providing innovative solutions to today's business needs; including Pan European requirements and EuroVAT acting in a true Multi currency environment.
Hardware: AS/400 Client Server, Windows and OS/2 GUI support.
Coverage: 65 Offices in over 30 countries worldwide. See us at the Softworld Exhibition on Stand No. 518
Applications: Financials, Distribution, Inventory, Asset, Service, Production, Manufacturing, Project, Warehouse Management, EIS and FMCG.

IBS

12 Dataflow (UK) Ltd

Dataflow House, Mill Mead, Staines
Middlesex TW18 4UQ
Tel: 01784 454171 Fax: 01784 460806
Email: sales@dataflow.co.uk

dBFLEX Business Software is a powerful, flexible and fully featured modular accounting system covering all aspects of business systems, from Management Accounts through to Job Costing, Inventory and Asset Management for every branch of business including retail outlets, wholesale and distribution, construction and other service industries. Also available is dBFLEX Developers version with flexibility and tailorability to the highest level for clients whose needs cannot be met by a standard package. dBFLEX for Windows takes advantage of all aspects of object oriented development to offer a state-of-the-art product for Windows 95 and beyond. This scaleable software is available as a network product or a client-server system using Interbase or SQL server as the underlying database.

13 Software 2000 UK

Crosby House, Meadowbank, Furlong Road, Bourne End, Bucks SL8 5AJ
Tel: 01628 850850 Fax: 01628 850243

Software 2000 offers a comprehensive suite of financial management, human resources and materials management software designed exclusively for the IBM AS/400 and related technologies, using client/server and object oriented technologies to provide easy-to-use icon and graphical screens and integration with popular windows spreadsheets and word processing packages and takes into account all the requirements of the national corporation. Software 2000 has over 1300 clients worldwide.
Hardware: IBM AS/400, Server, Client/Server - OS/2, Windows NT & 95
Geographical Coverage: UK, Mainland Europe, USA, Australia, Asia, Sth Africa
Applications: Totally integrated financial management, human resources & materials management
Cost: Entry level price £25,000

14 JBA

Needles House, Birmingham Road
Studley, Warwickshire B80 7AS
Tel: +44(0)1527 496444
Fax: +44(0)1527 496230

JBA System 21 Financials streamline the processes of exception analysis, performance measurement, budgeting and forecasting. It also guides users through the maze of legal, accounting and taxation differences of the global marketplace. System 21 contains modules to cover every area of an organisation's financial operations, both now and into the 21st century. Visit JBA on stand 629 at Softworld in Accounting & MEIS where JBA will be demonstrating how Activity Based Costing can give an accurate view of the real costs behind business processes.
Hardware: Multi-platform
Geographical Coverage:
Worldwide
Applications:
System 21 Manufacturing, Financials, Customer

JBA

15 Geac Computers Limited

Hollywood Tower, Hollywood Lane, Cribbs Causeway, Bristol BS10 7TW
Tel: 0117 9509003
Fax: 0117 9590718

- Integrated client/server Reconciliation and Investigations System for Cash, Securities and FX Confirmations
- 24 hours on-line availability • Workflow
- Supports agency and/or propriety data formats
- Automatically recognises match exceptions
- Creates investigations cases
- Reconciles holdings or transactions
- Comprehensive MIS

Hardware: UNIX or NT, HP, IBM RS6000, SUN, Sybase, Oracle, Ingres
Geographical Coverage
UK, Europe, Far East, Australia, North America
Applications: Geac WINNAR
Cost: Priced on a per concurrent user basis

16 Scitor

Scitor House, Vanwall Business Park
Maidenhead SL6 4UB
Tel: +44(0) 1628 773577
Fax: +44(0) 1628 778097

Scitor jointly operates the world's largest private international telecommunications network. Backed by 45 years experience, local support in 150 countries and a wide range of data and voice services, Scitor has quickly penetrated the finance market.
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Geographical Coverage
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Applications
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Dial Services,
SNA, VPNs,
Internet/Intranet,
Security

Scitor

17

St George's Hall, Easton-in-Gordano
Bristol BS20 0PX
Tel: 01275 374477
Fax: 01275 372753

AGRESSO 4.0 is one of the most sophisticated and dynamic Financial Management, Logistics, Projects & Human Resource software applications complete and available in the marketplace today. Designed to maximise the use of the latest client/server concepts, AGRESSO provides a powerful and inherently flexible business solution. Aimed at medium to large organisations AGRESSO's user base both in the UK and the rest of Europe include major corporations, service industries, Public Sector, Local Government and Healthcare.
Hardware: All major Unix and Windows NT server platforms - Windows 3, Windows 95 and Windows NT clients.
Geographical coverage:
International

Ampersand

18–19

Scala House, 23-24 Bourne Court,
Woodford Green, Essex IG8 8HD
Tel: 0181 5501994
Fax: 0181 5517429

Scala International develops and markets scala 4.1, which will be previewed at softworld in accounting and MEIS in October. Scala 4.1 is a fully multi-lingual, multi-currency business management and accounting system for local and global operations. Supported from 55 offices worldwide, in over 30 different languages. Scala 4.1 is extremely flexible offering specific parameterisation and powering non-dimensional capabilities..

Hardare/Compatibility
IBM Compatible PCs, Networks, all unix systems, client server

Geographical Coverage
Worldwide; 14000 installations in over 90 countries.

Applications
Scala financials, logistics, business and manufacturing systems, available in OOS, windows, unix and client serve

Cost
On application

INTERNATIONAL

20 KAI Computer Services Ltd

4 Kings Exchange, Tileyard Road,
London N7 9AH
Tel: 0171 609 3746, Fax: 0171 609 3742

OCTOPUS ACTIVITY AND CONTACT MANAGEMENT

"The left hand doesn't know what the right hand is doing"

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OCTOPUS

21 Performance Software Limited

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Berkshire SL1 1PX
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Geographical Coverage
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Applications
Software Testing Tools

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Established 1983

Perception Systems Int'l Ltd.
01252 836463

27 Lincoln Software Limited

Marlborough Court, Pickford Sreet.
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Applications:
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Applications: Various
Cost: On application

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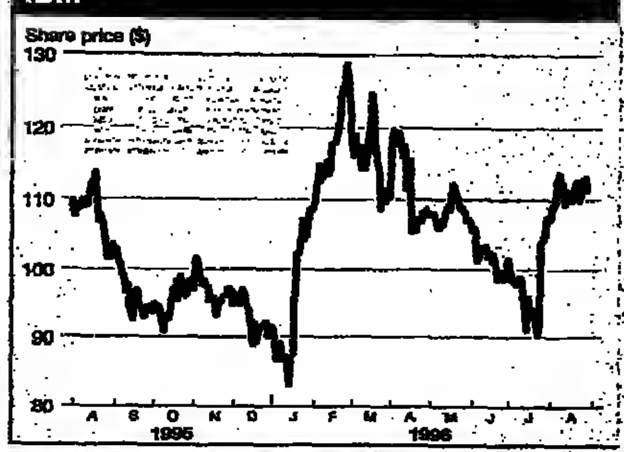

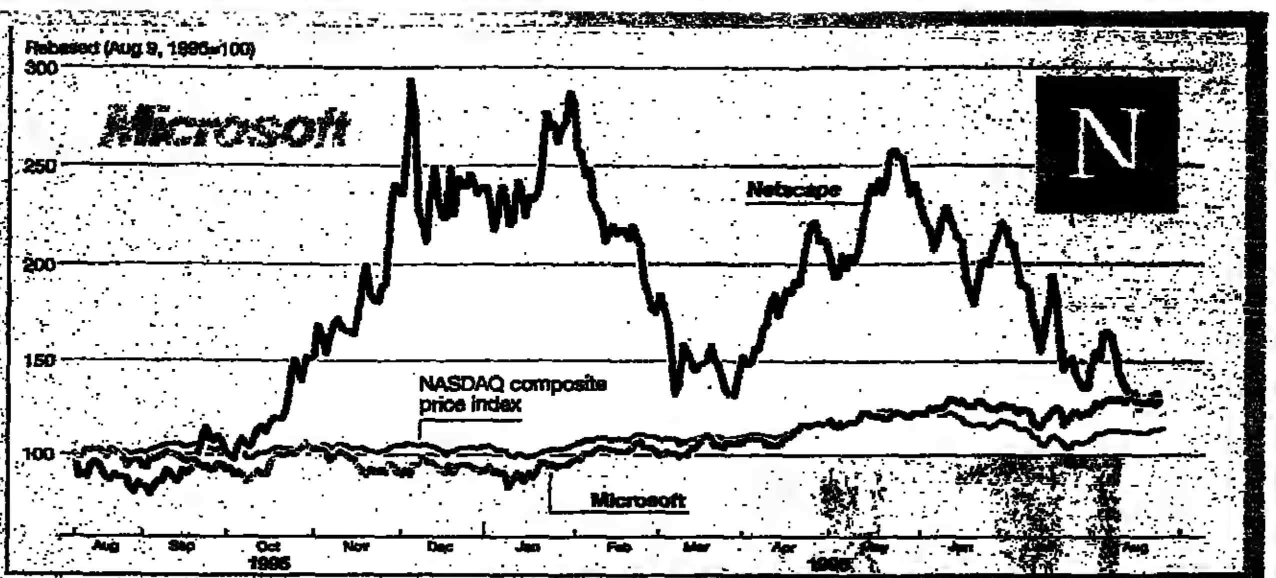

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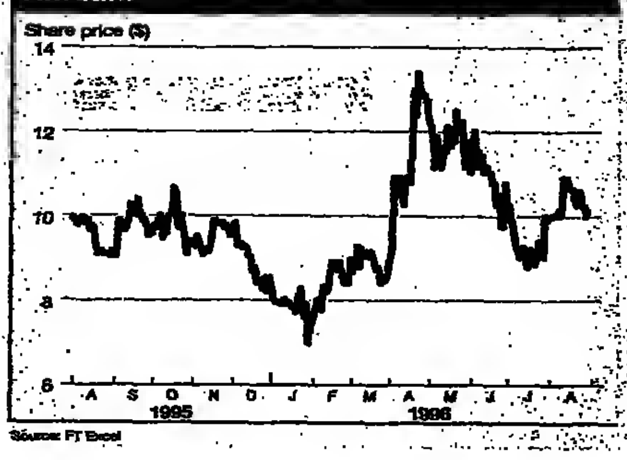

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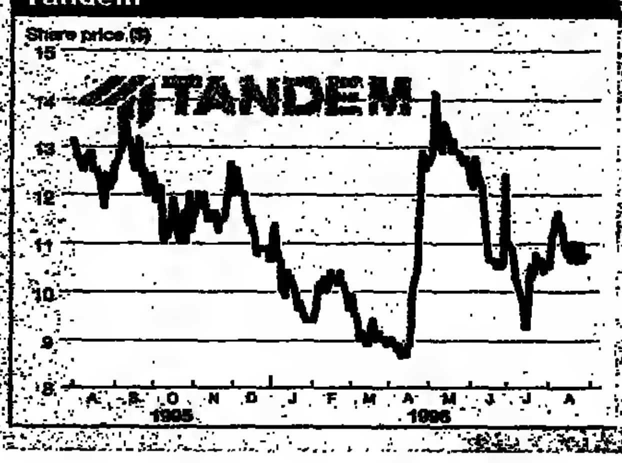

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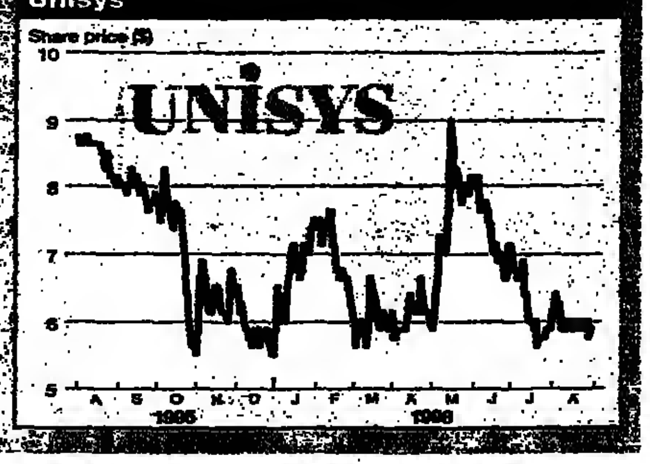

Source: FT Extel

Sleeping giant fights back

The impact of the 'browser battle' is apparent in the relative performance of Microsoft and Netscape's share prices

In tha past month, Microsoft and Netscape Communications have both launched new versions of their Internet Web browsers – software for accessing the vast information available on the World Wide Web.

The launch of Microsoft's Internet Explorer 3.0 and Netscape Navigator 3 marks an escalation of the battle between the two companies to control the market for Internet and intranet software.

Microsoft, which has been playing "catch-up" with its Californian rival in the Web browser software stakes, was initially caught napping by the phenomenal growth of the Internet. However, since November when Microsoft chairman Bill Gates outlined his Internet strategy, the company has been focusing its huge resources on outmanoenvring its rivals, including Netscape.

Although Netscape still dominates the browser market – particularly the corporate market – with its Navigator software, Microsoft's Internet Explorer 3.0, which is available to users without charge, closes the technology gap and should enable the group to boost its market share. Now Netscape's lawyers have accused Microsoft of employing anti-competitive practices in the battle to win market share – a charge Microsoft denies – and have asked the US Justice Department to take action.

The impact of the "browser battle" is also apparent in the relative performance of Microsoft and Netscape's share prices. As the chart daveloped by Broadview Associates, the mergers and acquisitions specialists, shows, over the year to August 8, Netscape's shares gained 62 per cent while Microsoft gained 30 per cent and the US-based Nasdaq Composite index gained 13 per cent.

However, as Broadview notes, Microsoft's shares were at a 12-month high at the end of the period, preserving the company's position as the world's most highly valued software group in a turbulent year. In contrast, Netscape's shares were 45 per cent below their peak.

The Nasdaq index, despite its highly pnblicised fall in July, still ended the period at 91 per cent of its year high. Netscape began to outperform the Nasdaq index in October last year after announcing its first profitable quarter, beating US analysts' expectations. Its market position was further enhanced in early December after it announced the establishment of s strategic alliance with Sun Microsystems and Silicon Graphics for the development of Javascript – an alliance viewed by most as a direct challenge to Microsoft.

Thus, while Microsoft's shares drifted and stood at 94 per cent of its starting level on December 7, Netscape's shares benefited from "Internet fever."

But all this changed on December 7 last year when Mr Gates announced Microsoft's Internet strategy – in effect an admission that Microsoft had underestimated tbe impact of the Internet and the growth of the World Wide Web in particular. He said that Microsoft would henceforth put the Internet at the core of all the company's products and said Netscape had awakened "a sleeping giant."

The immediate effect on Netscape's shares was dramatic. The shares lost 18 per cent of their value in one day. However, Netscape's investors have put their faith in the group's growth prospects, leading them to scrutinise the group's quarterly results for signs of such growth.

As a result, the shares have become highly sensitive to the quarterly results cycle. Tbus Netscape's announcement at the end of January of an 85 per cent increase in revenues sent the share price soaring back towards its December high and the April 23 announcement of results which also exceeded market forecasts resulted in another peak.

"The lesson here is that the market pays most attention to the 'hard' data sucb as financial results and prefers to focus on them rather than the 'alliance' announcements when they become available," says Broadview.

The comparison between Netscape and Microsoft's share price performance over the past year highlights another fact. Microsoft tracks the Nasdaq index quite closely, not surprisingly given that it is the largest share traded on the Nasdaq. However, even before the general summer slump in Nasdaq shares which hit Netscape particularly hard, Microsoft had begun to outperform the index significantly.

The gap widened still further in July, and then again following Microsoft's announcement of record earnings and 46 per cent revenue growth last month.

The individual share charts show investors' differing perceptions towards those companies with big stakes in the mainframe market.

International Business Machine's steady underlying progress – notwithsdading a large second quarter loss – and the renewed growth of its mainframe business, is reflected in its share price performance, while investors remain somewhat more cautious about Amdahl, one of its main competitors in the mainframe market, and Tandem which competes aggressively in the financial services segment in particular.

Meanwhile shares in Unisys, the mainframe computer manufactuer which is undergoing a further restructuring, continue to suffer, reflecting disappointing second quarter results and the group's warning that delays in the introduction of new models could depress full-year results.

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FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday September 4 1996

IN BRIEF

Fertiliser groups in $1.2bn deal

Canada's Potash Corporation of Saskatchewan is on course to become the world's biggest integrated fertiliser producer with an agreed US$1.2bn cash and shares offer for Arcadian of the US. Page 14; **Rising global demand drives consolidation, Page 14**

Randgold to pay $53m for gold stake
Randgold, the South African mining group that has been expanding aggressively under new management, is buying control of the Syama mine in Mali, one of the biggest gold producers in west Africa, from Broken Hill Proprietary, Australia's largest company, in a deal worth US$53m. Page 12; **Real price of gold seen at $580 by 2010, Page 20**

Renault bolsters top management
Renault, the French carmaker, is moving to beef up its senior management with the appointment of Brazilian-born Mr Carlos Ghosn to its executive committee. Mr Ghosn has worked for Michelin, the tyre manufacturer, for the past 18 years. Page 12

Crédit Foncier rescue plan scrutinised
The French takeover panel is due to meet today to consider whether to approve the proposed state-backed rescue for Crédit Foncier, the specialist property lender, amid growing controversy over the plan. Page 13

Cisco pays $220m for technology group
Cisco Systems of the US, the leading manufacturer of Internet computer networking equipment, agreed to acquire Granite Systems, a privately-held Silicon Valley networking technology developer, for about $220m in stock. Page 14

Black denies Fairfax sale talk
Mr Conrad Black, the Canadian media proprietor, who holds a 25 per cent interest in Australia's John Fairfax newspaper publishing group, denied speculation that he was looking to sell his stake, but said he was "exasperated" by the lack of progress on a review of the country's media ownership policy. Page 15

UK cement group advances 12%
Tha first fruits of the restructuring of its heating division helped Blue Circle Industries, the UK cement and building products group, to a 12 per cent increase in interim pre-tax profits to £116.3m ($181.4m). Page 17

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Mannheim Vers	630	+	10
Falls			
Degussa	511.5	–	6.5
Holzmann	350	–	13
Linde	921	–	5.5
SAP	240.5	–	3.7
Thyssen	265.6	–	2.2
NEW YORK ($)			
Rises			
Amerada Hess	53¼	+	2⅛
Arcadian	24½	+	2⅛
Freept-Mcmrn	37¼	+	2⅞
Falls			
HFS	55⅞	–	4
Kubota	120	–	12½
Potash	73⅛	–	2⅞
LONDON (Pence)			
Rises			
Croda Intl.	339	+	26½
Zergo Hldgs.	260	+	15
Falls			
Iceland Grp.	82	–	9½
Memory Corp	24	–	13½
Trocadero	75	–	4
Utd News & Med	705	–	17½
TORONTO (C$)			
Rises			
Delrina	12.50	+	0.90
Fulcrum Tech	18.10	+	1.15
Third Cad Inv	14.00	+	0.90
Falls			
Chateau Str A	6.50	–	0.60
Getchell Gld	61.10	–	4.85
Teklogix	14.00	–	0.55
PARIS (FFr)			
Falls			
Alcatel	388	–	8.4
BIC	747	–	22
Club Med	373	–	9.6
Damart	3515	–	85
Peugeot	588	–	9
Seb	840	–	29
TOKYO (Yen)			
Rises			
Alps Electric	1340	+	50
Central Glass	388	+	12
Kyodo Shiryo	520	+	48
Nissin El	730	+	29
Tokyo Steel	2000	+	70
Falls			
Denny's Japan	3620	–	130
HONG KONG (HK$)			
Rises			
Min Xin Hldgs	2.05	+	0.13
Seapower	2.875	+	0.225
Win Win	0.80	+	0.08
Falls			
First Pacific	11.85	–	0.50
Hend'son China	17.00	–	0.85
Peregrine Inv	10.75	–	0.80
BANGKOK (Baht)			
Rises			
Lucky-tex	19.25	+	1.75
One-UB Fd	8.30	+	0.60
Pan Asia Foot	13.25	+	1.00
Falls			
Carpets Inter	61.00	–	6.00
Loxley Publ	278.00	–	18.00
Siam City	183.00	–	11.00

New York and Toronto prices at 12:30.

Seoul raises foreign investment limits

Increase to 20% could bring $2.5bn into South Korean markets to combat effects of weakening economy

By John Burton in Seoul

South Korea is to raise the foreign ceiling on equity investments in an attempt to lift the sagging Seoul bourse, which has been weakened by the country's worst economic performance in three years.

The foreign stock ownership limit in a listed company will be increased by 2 percentage points to 20 per cent, according to yesterday's government announcement. Officials predict this relaxation could result in $2.5bn of new funds flowing into the market from abroad.

The bourse has fallen 20 per cent since April, when economic problems became apparent with a widening current account deficit and a slowdown in growth.

Although increased liquidity would give the bourse a temporary boost, analysts warned that an estimated total of won3,000bn ($3.66bn) in initial public offerings scheduled for the rest of the year could cause a stock oversupply that would depress the market.

The securities supervisory board said yesterday that Hyundai Electronics, a semiconductor manufacturer, had applied to be listed with a won200bn IPO in November, along with eight other companies.

Both Hyundai and LG Electronics, another computer chip producer, are planning listings this year despite a sharp fall in global prices for semiconductors, Korea's largest export product. The weakness in semiconductor prices has been one of the most important factors behind Korea's growing current account deficit, which is predicted to reach a record $15bn for 1996.

Mr Han Seung-soo, the deputy prime minister for economic affairs, yesterday admitted there was little the government could immediately do to cut the current account deficit.

Instead, the government will concentrate on achieving price stability, since rising production costs are also contributing to the trade deficit as Korean exporters lose their international price competitiveness. Inflation threatens to exceed the government's target of 4.5 per cent for this year.

The government will try to lower interest rates and curb increases in wage, land and distribution costs for industry. It will also encourage the public to spend less through tax-free savings accounts.

Mr Han insisted that Korea's proposed membership of the Organisation for Economic Co-operation and Development would not be derailed by the economic problems.

Domestic opponents of OECD membership, including the two main opposition parties, have argued that financial liberalisation measures advocated by the organisation could aggravate Korea's trade deficit.

OECD opponents said the removal of restrictions on capital flows could result in a flood of foreign funds into Korea that would add to inflationary pressure and lift the currency's value.

But supporters argue that increased funds from abroad would also help lower Korea's high interest rates.

Lex, Page 10

Stake in Tractebel may be for sale

By Neil Buckley in Brussels

Electrafina, the energy subsidiary of Belgian holding company Groupe Bruxelles Lambert, said it was considering selling its 20.3 per cent stake – worth more than $1bn – in Tractebel, the fast-growing Belgian energy group, but had made no decision.

The statement followed a Belgian newspaper report that Baron Albert Frère, chairman of GBL – Belgium's second-biggest holding company – had offered the Tractebel stake to GBL's bigger rival, Société Générale de Belgique.

De Financieel-Economische Tijd suggested that a further 4.29 per cent of Tractebel, held by insurance group Royale Belge, an associate of GBL on good terms with Baron Frère, had also been offered to SGB. At the reported offer price of BFr14,500 a share – a premium to Monday's BFr12,925 closing price on the Brussels bourse – the value of the combined 25 per cent stake would be BFr50bn ($1.68bn).

SGB already controls 40 per cent of Tractebel, and has effective management control and the right to appoint the chairman. Acquisition of another 25 per cent would give it a majority stake in the energy and engineering group, which is rapidly diversifying away from its home market through investments in Hungary, Chile, India, Kazakhstan and Thailand.

Electrafina admitted withdrawal from Tractebel had been the subject of discussions, adding: "No decision has, however, been made up to this point." Royale Belge and Tractebel were unavailable for comment.

SGB, nearly two-thirds owned by France's Compagnie de Suez, said it had received no approach from GBL, and was "happy" with its Tractebel stake. An agreement with GBL gave it first refusal should tha latter decide to sell its holding.

It added that it might prefer to buy GBL's stake rather than see it pass to an outside investor, "provided the price was right".

Analysts said acquisition by SGB of GBL's stake would fit both groups' strategies. Société Générale, although its investment portfolio includes Générale de Banque, Belgium's largest bank, and insurance company Fortis as well as industrial groups, is anxious to lessen its exposure to economic cycles.

Groupe Bruxelles Lambert, meanwhile, wants to develop its media interests, which include CLT, the Luxembourg broadcaster.

CLT recently merged its television interests with Bertelsmann's Ufa to create a new company big enough to exploit the growth opportunities offered by digital TV.

Under Belgian company law, however, acquisition by SGB of a majority stake in Tractebel could trigger demands from Belgium's Banking and Finance Commission for a full takeover bid for the remaining 33 per cent traded on the stock market. That would involve total investment of more than BFr117bn.

LucasVarity to cull 30% of top staff

By Tim Burt in London

LucasVarity, the motor components manufacturer created by this summer's merger of Britain's Lucas Industries and Varity Corporation of the US, is planning to cull a third of its senior management as part of a £115m ($178m) cost-cutting drive.

The enlarged group, which begins trading in London and New York on Friday, is today expected to unveil a new management structure and confirm that 50 operating and administrativa managers will lose their jobs in the restructuring.

Mr Victor Rice, chief executive of the new company, said: "There are 150 people for 100 jobs. We will only retain those who can perform."

The executives expected to lose their jobs had been selected on the basis of psychometric tests, management appraisals and three-hour interviews, he added.

The redundancies and a further 450 job losses elsewhere are to be funded from provisions of £50m this year and £65m next.

Mr Rice yesterday described those provisions as conservative and predicted they would grow as further cost-savings emerged from a strategic review of the group's braking, diesel, aerospace, electrical and aftermarket interests.

The Varity chairman – who becomes chief executive of LucasVarity this week – said he planned to mark the first stage of that review by naming seven new divisional managing directors and a new corporate management committee.

He hinted that the balance would reflect Varity's management style, although Lucas executives such as Mr Ken Maciver, in the aerospace division, and Mr John Anthony, in the aftermarket business, were likely to retain their jobs.

Mr Rice has also drawn up a strategy document committing the group to doubling annual sales to £10bn by 2005, with more than 30 per cent of the turnover coming from Asia.

Most of that growth is expected to come from LucasVarity's combined braking division – where it plans to exploit an existing alliance with Sumitomo of Japan – and from the diesel systems and engine manufacturing subsidiaries.

The company, however, predicted significant growth from the aerospace side, previously mooted as a possible disposal candidate.

Mr Rice said aerospace remained a core business and could be expanded through bolt-on acquisitions.

He confirmed that LucasVarity was in talks to acquire Boeing's cargo-handling business, but declined to say when the deal might be completed.

The company was also said to be close to selling its geared systems division, the US aerospace components business that was at the centre of a dispute with the Pentagon last year over falsified quality control documents.

Mr Rice hinted that any business that could not boast "critical mass" was likely to be sold, and he was focusing attention on underperforming parts of the aftermarket and electronic and electrical divisions. Some industry analysts suggested the divestment exercise could raise about £250m. But the company denied any target had been set for such proceeds.

Mr Rice predicted that his successor would emerge from the new management team named today.

He declined to comment, however, on whether the next chief executive would enjoy the same remuneration package.

The 55-year-old LucasVarity chief executive has signed a three-year contract on a basic salary of £600,000 a year, with the additional promise of performance-related bonuses and a $2.85m lump sum retirement payment.

Background, Page 25

Victor Rice: 'we will only retain those who can perform' *Picture: Fergus Wilkie*

Smurfit profits slide underlines paper downturn

By Patrick Harverson in London

Jefferson Smurfit underlined the extent of tha downturn in the global paper market yesterday when the Irish group reported a big drop in first-half profits.

Amid lower paper prices and weaker sales, pre-tax profits fell 37 per cent to I£126.2m ($204.8m) on turnover of I£1.35bn, down from I£1.54bn.

The fall in profits at Smurfit follows other, often larger declines reported by US and European rivals in the past few weeks. Tha industry's woes will be reinforced tomorrow when Arjo Wiggins Appleton, the Anglo-French group, releases its interim figures, which are also expected to show a sharp profits fall.

The paper manufacturing and distribution industry has been been hit by the cyclical downturn in prices and sales since the middle of last year. Smurfit said paper prices in its largest market, France, had fallen more than a third to about $450 a tonne in the past six months.

Smurfit's decline had been expected, primarily because last year's interims marked the end of a period of buoyant paper prices and included the first contribution from Cellulose du Pin, the big French container board manufacturer acquired for I£684m in 1994.

Mr Michael Smurfit, chairman, said excluding last year's exceptional performance, the latest results represented the group's second best interim performance.

But he warned: "There are some signs that the rate of decline in paper and box prices has slowed, however there is still no conclusive evidence that our markets have reached a turning point."

Overcapacity continued to plague the industry, with many producers forced to keep plants idle to avoid adding to stocks.

Whila Mr Dermot Smurfit, deputy chairman, reported that orders in some markets had recently increased, it was too early to tell if this represented a genuine revival in demand or simply restocking by customers ahead of anticipated price rises.

Orders had risen despite the group's decision at tha end of the first half to raise corrugated prices in the US and Europe by up to 10 per cent. But there was no guarantee the increases would stick. Mr Smurfit did not think profits would recover until the first half of 1997 at the earliest.

In Ireland and the UK, profits before tax and interest fell to I£18.8m (I£24.1m), in continental Europe they declined to I£65.1m from I£95m, in the US to I£42.2m from I£62.3m and in Latin America to I£30.1m from I£44.1m.

The uncertain outlook for the industry prompted the company to cut its capital expenditure in the first half. It dropped I£15m to I£60m and a similar reduction is expected in the second period.

Earnings per share declined from 12.8p to 8.2p. The interim dividend was raised to 1.5p (1.4p).

The shares fell 3½p to 170p.

Lex, Page 10

Randgold buys Malian mine

By Kenneth Gooding, Mining Correspondent

Randgold, the South African mining group that has been expanding aggressively under new management, is buying control of the Syama mine in Mali, one of the biggest gold producers in west Africa, from Broken Hill Proprietary, Australia's largest company, for US$53m.

The acquisition lifts Randgold Resources, the exploration and new business arm, into a new league, said Mr Mark Bristow, chief executive of that company. Randgold Resources now proposes to list on one or more stock exchanges.

Syama was commissioned in 1990 and has been expanded at a cost of $39m. BHP has scheduled production of 188,000 troy ounces of gold in the present financial year. Syama has proven reserves of 2.2m ounces and estimated resources of 3.3m ounces of gold.

BHP put it up for sale some time ago after encountering technical difficulties when deeper, more complex ore was mined and after the Malian government introduced import duties.

Mr Bristow said yesterday: "It is true that Syama has not lived up to BHP's expectations, but it is a very substantial, operationally profitable mine with a strong ore body and the problems which it has had are ones which Randgold is particularly well-equipped to address."

Randgold, as a result of a "due diligence" review, already had detailed plans for improving the mine's performance and the industrial relations climate.

A 80 per cent stake in Syama is held by BHP Minerals Mali which has been acquired by Randgold Resources for $30m cash and a loan claim of $23m, part of which will be convertible into shares in Resources by agreement between BHP and Randgold. BHP will retain a $31m loan with a maximum payback period of six years.

Randgold, the parent group, will support the funding by raising $40m through an issue of convertible debentures and capitalising $30m of the proceeds into Resources.

HSBC Investment Bank has been appointed additional lead manager for the convertible offering, supported by a joint venture between ABN-AMRO and N M Rothschild as well as Deutsche Morgan Grenfell and Societe Generale.

The other shareholders in Syama are the Malian government and the International Finance Corporation.

Renault appoints Carlos Ghosn

By David Owen in Paris

Renault, the French vehicle maker, is moving to beef up its senior management with the appointment of Mr Carlos Ghosn to the group's executive committee.

Mr Ghosn, 42, has spent the past 18 years with Michelin, the world's largest manufacturer of tyres, most recently as chairman of Michelin North America and corporate vice-president with responsibility for the group's worldwide passenger and light truck tyre business.

Brazilian born, he also served for a spell as managing director of Michelin's Brazil operations. Renault said his appointment, together with other changes to the senior executive body, showed the determination of Mr Louis Schweitzer, chairman and chief executive, to "open up and internationalise" the group.

Confirmation of the recruitment comes just a week before the company is due to unveil its first-half results, with some analysts forecasting a small loss.

The first six months of 1996 were exceptionally difficult for Renault, a majority of whose shares are now back in private hands for the first time in more than half a century. Its January-June market share of European sales fell from 10.6 to 9.7 per cent. While new car registrations in Europe rose 4.8 per cent, Renault's sales fell 3.9 per cent.


Louis Schweitzer: determined to open up and internationalise the group

More recent figures suggest the group's loss of market share may have stabilised, however. Moreover, August sales in France have been unusually buoyant, with consumers rushing to take advantage of government incentives to trade in old vehicles before the scheme ends on September 30. As one analyst said: "There are a few things that look a little bit better."

The company may now be hoping Mr Ghosn's appointment edds to the recent impression that it could be starting to stage something of a revival. Yesterday, Renault shares rose FFr1.70 to FFr113.80, compared with a fall of 0.28 per cent in the benchmark CAC-40 index and a decline of FFr9 to FFr568 in shares of PSA Peugeot Citroën.

Mr Ghosn is to join Renault on October 15 and will be appointed executive vice-president and executive committee member from December 1. Five of the company's departments – research, purchasing, vehicle engineering, mechanical engineering and manufacturing – will report to him.

August surprises European exchanges

By Richard Lapper, Capital Markets Editor

Europe's biggest three financial futures and options exchanges – London, Paris and Frankfurt – saw a sharp increase in activity in August, traditionally a quiet month in financial markets. The increase reflected uncertainty about the direction of European interest rates and European Monetary Union.

At the London International Financial Futures and Options Exchange (Liffe) 12.43m contracte were traded, 23 per cent more than in the same month of 1995.

In Paris, Matif said that trading voluma reached 5.06m contracts in August, up 8.1 per cent on the previous month and 18.2 per cent compared with the previous August. Frankfurt-baeed Deutsche Terminborse (DTB), meanwhile, saw 5.55m contracts traded during the month, roughly 22.7 per cent higher than the volume recorded in the same month of 1995.

At Liffe, the turnover in three-month euromark options increased by 82 per cent on August of the previous year, while the average daily volume of 10-year German bund futures contracts traded rose by 16 per cent.

Liffe also saw interest in its Italian contracts increase steeply, with trading in three-month eurolira futures contracts rising 121 per cent by volume, and eurolira options 614 per cent to 88,107. Turnover of Italian government bond futures rose by 13 per cent, while volumes of options on these bonds rose by 147 per cent to 265,102.

The DTB saw volume in its futures contract rise some 57.5 per cent and reported particularly strong interest in its five-year Bobl future and options contracts. At Matif, open interest in the "notionnel", the 10-year futures contract, grew 51.5 per cent on the same period of the previous year.

Activity in the three-month Pibor futures and options contract increased spectacularly over July 1996, by 67.3 per cent and 75.7 per cent respectively, mainly as a result of movements in the currency and money markets.

NEWS DIGEST

New deadline for Creditanstalt sale

The Austrian government, which has been trying for more than five years to privatise Creditanstalt, the country's second-biggest bank, has set a new deadline in its long-running battle to sell its majority stake. Mr Viktor Klima, Austria's finance minister, yesterday gave the Austrian-Italian consortium, which is interested in buying the stake, until Friday to make a final offer.

Although various foreign banks have shown an interest in the past in the government's stake, they have been frightened off by Austria's apparent insistence that control of the country's best-known bank should remain in Austrian hands. Consequently, the only public show of interest in Creditanstalt is from an odd collection of investors led by EA-Generali, the Austrian subsidiary of the Italian insurer First Austrian, a local savings bank, plus various other parties such as Germany's Commerzbank and Banca Commerciale Italiana.

The negotiations have been dragging on for months and the deadline has had to be extended partly because the investors within the consortium cannot agree on the structure of their bid, let alone the price.

Mr Klima, who appears to be losing patience over the tortuous negotiations, said yesterday that "we want an offer, a price and a dete". He indicated that if the consortium did not table an offer by Friday he would start a fresh search for a buyer for the government's stake.

William Hall, Zurich

Telepizza to seek listing

Telepizza, the Spanish pizza company, is planning to seek a stock market listing through an initial public offer of 40 per cent of the group's share capital before the end of the year, Banco Bilbao Vizcaya said. BBV Interactivos said it would act as global co-ordinator for the planned share offer, consisting of a tranche for retail and institutional investors in Spain, as well as an international one exclusively for institutions. Marrill Lynch will act as director for the international tranche, it said.

In July, BBV said it had acquired an 18 per cent stake in Telepizza from its the fast-food chain's founder Mr Leopoldo Fernandez Pujals, who had previously owned a 40 per cent holding. That followed Corp Financiera Reunida's decision to break off talks to acquire a 60 per cent stake in TelePizza from the company's minority shareholders.

Telepizza, with 218 outlets in Spain and 5,300 employees, posted net profit of Pta1.022bn ($8.1m) in 1995 on sales of Pta13.7bn. In the six months to June 30, the company reported net profits of Pta707m.

AFX News, Madrid

Eridania ratings confirmed

Moody's Investors Services said it has confirmed the senior A3 debt rating of Eridania Beghin-Say, the French food group, and its US subsidiary American Maize-Products. It also confirmed the industrial revenue bonds issued by American Maize.

In June, Moody's put Eridania Beghin-Say's and American Maize's senior debt ratings on review for possible downgrade following the FFr2.85bn ($560m) acquisition by Eridania Beghin-Say of Navigation Mixte's subsidiary Française de Sucrerie. Moody's said that Eridania Beghin-Say was expected to restore its financial position which saw a certain deterioration through the acquisition.

AFX News, Paris

Carrefour sales improve

Carrefour, the French retailer, said its sales rose 6.5 per cent to FFr110.7bn ($21.8bn) in the eight months to August. August sales were up 8.7 per cent et FFr14.48bn. Sales in France rose 3.5 per cent during the first half, reaching FFr65.86bn, and up 7 per cent in August to FFr8.524bn.

AFX News, Paris

Belgian bank up midway

Crédit Lyonnais Belgium said first-half net profits rose from BFr472m last year to BFr527m ($17.2m) this time. The bank expected a significant rise in full-year net profits from the BFr628m reported in 1995. The first half represented an annualised return on own funds of 10.24 per cent, against the Belgian bank industry norm of 8.8 per cent in 1995, it said. The bank said it had a BFr547bn balance sheet total and a solvency ratio of 11.1 per cent, against the minimum required of 8 per cent.

AFX News, Brussels

Libertel to change billing base

Libertel, the GSM mobile telephone consortium owned by ING, Vodafone, Internatio-Mueller, Vendex International, Macintosh, and LIOF-Limburg Telecombinatie, said it would next month introduce calling rates based on the length of conversations in seconds instead of the larger time units now being used.

Libertel said the new calculation method would lead to considerable savings for subscription holders. Mobile telephone services in the Netherlands currently round upwards the length of the conversation for billing purposes to the nearest half-minute during peak hours and to the nearest minute during off-peak hours. The new calling rates would be published in October, it said.

AFX News, Sittard, Netherlands

CONTRACTS & TENDERS

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COMPANIES AND FINANCE: EUROPE

NEWS DIGEST

New delay for Stena high-speed service

Stena Line, the Swedish ferry operator, said it had suffered a new delay to the timetable for introducing its new High-speed Sea Service (HSS). The company said financial problems at the WestarMarin shipyard in Norway, which is building Stena's two HSS900 craft, would mean a delivery delay of two months for the second vessel. Stena also said it had pumped SKr25m ($3.76m) of capital into WestarMarin on top of a SKr40m cash injection made in May.

The craft, which has yet to be assigned a route, will now enter service in June next year. A six-month delay in delivery of the first HSS900 vessel, announced earlier this year, was partly to blame for a widening of Stena's first-half pre-tax loss from SKr350m to SKr560m.

Greg McIvor, Stockholm

Closedown at Bally France

Bally France, the shoe retailing chain owned by the Switzerland-based Oerlikon-Bührle group, yesterday filed for bankruptcy and announced a restructuring plan to include closure of two of its factories in France.

The action, which follows several years of financial difficulties for the group and persistent rumours of its problems in the past few weeks, follows a series of collapses of well-known High Street names such as the specialist food chain Felix Potin last year.

Bally, which employs about 1,200 staff, proposed to the Paris commercial court that it close or sell its factories in Moukins and Villeurbanne as well as 55 of its 100 outlets in France, while being granted protection from its creditors. Accounts filed for 1995 show that the group reported a loss of FFr79m ($15.5m) for the year, on top of losses of FFr20m for 1994.

Separately yesterday, 250 employees of the shoe and textile industries demonstrated in the centre of Lyons in an effort to win support for safeguards for their jobs.

Andrew Jack, Paris

Trelleborg targets Horda

Trelleborg, the Swedish mining, metals and rubber group, said it had made a public offer for Swedish rubber producer Horda, worth SKr276m ($41.5m), and that shareholders controlling 89.7 per cent of the voting shares and 82.4 per cent of the capital in Horda would accept the bid.

Trelleborg said it was offering SKr69 cash for every A share in Horda, and SKr62.50 for every B share. Based on the average share price over the past three months, Trelleborg's offer represents a premium of about 21 per cent for the series B shares, while based on an average price during the latest month, the premium is about 17 per cent, it said.

Horda has annual sales of some SKr359m from four main business areas: vehicle components, building profiles, rubber composites and the cable industry. It has about 350 employees and five factories in Sweden. Sales before the acquisition at Trelleborg Industri, Trelleborg'e rubber operations, totalled some SKr5.1bn and the unit has 5,100 employees.

AFX News, Stockholm

Telefónica de España upbeat

Telefónica de España, the Spanish telecoms group, yesterday said it expected to report net profits of Pta160bn ($1.27bn) in 1996, up from Pta133bn in 1995, Spanish newspapers reported, citing remarks by Mr Juan Villalonga, chairman. In the six months to June 30, Telefónica posted a 19.5 per cent increase in net profits to Pta71.8bn. Speaking in Santander, Mr Villalonga said the company planned to invest Pta350bn in its mobile telephone activities up until 2000.

AFX News, Madrid

Poland critical of Matra bid

Mr Wlodzimierz Cimoszewicz, prime minister of Poland, said Matra-Hachette's bid for a stake in Polish newspaper publisher Ruch was "weak", due to the low price offered.

Speaking to journalists, Mr Cimoszewicz said the bid, which was being studied by the Polish privatisation ministry, "presents a weakness which is the price offered, well below a suitable level".

The prime minister said a rival bid from a Polish consortium including Bank Rozwoju Exportu BRE, the private national television company Polsat and newspaper group Multico, was "far better". Hachette is prepared to pay $85m for a stake of more than 50 per cent in Ruch, while the Polish consortium would offer $120m for a 40 per cent stake, according to official sources.

AFX News, Warsaw

Credit Foncier rescue plan scrutinised

By Andrew Jack in Paris

The French takeover panel is due to meet today to consider whether to approve the proposed state-backed rescue for Crédit Foncier, the specialist property lender, amid growing controversy over the plan.

The Conseil des Bourses des Valeurs may report its conclusions as early as this evening. Under the offer, the state-backed Caisse des Dépôts et Consignations will offer FFr70 a share for Crédit Foncier, for which it will be reimbursed by the government.

The offer, which must also be scrutinised by the Commission des Opérations de Bourse, the markets watchdog, has raised anger from minority shareholders who claim that it undervalues Crédit Foncier and that the bank proposed "excessive" provisions of FFr13.6bn for 1995 to drag it into losses of FFr10.8bn ($2.13bn).

Meanwhile, the Paris commercial court is expected to rule on Thursday on whether to grant investors their demand for an independent firm of accountants to examine the terms of the offer and explain whether the valuation is adequate.

The court is set to hold hearings on September 18 to determine whether the annual general meeting to approve the group's 1995 accounts at the end of June should be judged invalid.

The protests are being coordinated by Ms Colette Neuville, head of the association for the defence of minority shareholders. Ms Neuville led an alliance that forced postponement of a resolution at the AGM which would have all but wiped out the company's share capital.

She argues that the vote at the AGM which narrowly approved the group's accounts was invalid because a large number votes held by CNP, the state-owned life insurance group, in Crédit Foncier were registered after the deadline ahead of the meeting.

Ms Neuville described the 1995 provisions announced by Crédit Foncier as "science fiction", and said the group's first-half results for 1996 – showing a return to profits of FFr402m – demonstrated that the FFr70 a share offer was too low.

She also questioned yesterday the decision by the group's board to recommend that shareholders accept the takeover bid, arguing that they were not justified in threatening liquidation as the only alternative. She said that if the courts invalidated the AGM vote on the 1995 accounts, there was no such pressure.

Enlarged Elan looks for new horizons

It was described by one broker as "an option on Alzheimer's". With Elan's $630m merger with Athena Neurosciences, the Ireland-based drug delivery company has acquired a significant presence in the neurology products market.

Six months on, the investment community will have its first chance to quiz Elan about its link-up with the small San Francisco based research operation when it holds its annual presentation with Wall Street analysts in a New York hotel later this month.

The consensus seems to be that the deal represents a shrewd move, creating "a highly unique drug delivery and biopharmaceuticals company", according to UBS, the Swiss bank.

Elan, now Ireland's fourth-largest company, has traditionally focused on drug formulation, not discovery. Founded by Mr Don Panoz in 1969 while a researcher at Dublin's Trinity College, Elan developed a range of drug delivery systems – a technology to increase the therapeutic value of existing compounds by making dosages more convenient, reducing the side effects and in turn raising the cost-effectiveness of any treatment.

At one level, the acquisition represents a defensive strategy to head off possible competition from new drug delivery start-ups, at the same time countering the trend among established companies to do more in-house reformulation.

But the change in direction had been well flagged as a way to increase control over the drug development process, and capture more of the sales price. "Its a way to claw back some of the distributor's margin," says Mr Donal Geaney, Elan chairman.

On a drug such as Cardizem, an anti-hypertension treatment marketed by Hoechst, Elan captures about 5 per cent of the market price. On other drugs it is up to 35 per cent – much of which is either royalty or licence payments which incur no tax.

Mr Tom Lynch, Elan chief financial officer, projects that by 2000 the company could be taking up to 55 per cent of the sales price of any drug as it moves to market products directly.

There are risks involved. Although expected to seek co-marketing arrangements for its more successful drugs, the company will not be able to spread its development costs as it has done in the past under licensing deals.

Traditionally the company worked with established compounds with proven safety records, where the product failure rate was about 20 per cent. With the Athena merger, the company can expect as many as 80 per cent of pipeline drugs to fail in line with the experience of other drug companies.

But more than just an enlarged product pipeline, Elan inherits a specialist sales force which according to one recent industry survey ranks it alongside Abbott, Ciba, Glaxo-Wellcome and Parke Davis. Elan will now take drugs from the development stage, through registration and approval to the market.

Perhaps just as vital, the deal beefs up Elan's management, with the merged group now led by Mr John Groom, a former president of Smith-Kline Beecham, and a board which includes Dr Dennis Selkoe, co-founder of Athena and Harvard professor of neurology.

Elan's current products include Cardizem, Naprelan, an anti-arthritic drug being marketed with American Home Products, and Verelan, an anti-hypertension treatment. By 2000, analysts expect the combined group to introduce some 15 new drugs and drug formulations.

Elan expects to seek approval for Neurelan, a multiple sclerosis drug, with the FDA by the end of 1997. The product has considerable synergies with Athena's Antegren which is undergoing clinical trials in the UK.

Over the past two years, Athena's revenue flow has relied largely on its Permax drug for Parkinson's disease. The company now hopes to bring its Zanaflex, spasticity drug, to the market later this year, after receiving FDA approval in March. The real prize over the long-term however is Athena's research into Alzheimer's, where it is collaborating with Eli Lilly.

Mr Lynch says "the key statistics are that there are between 5,000 and 7,000 active neurologists in the US, who directly write prescriptions for $1bn worth of drugs, and influence the prescription of a further $2bn-$3bn".

Analysts forecast annual profits growth of 30 per cent for the next five years, although with the new shares issued as part of the merger, there will be some dilution in the current year.

One side effect of the deal is that Elan's Irish identity, described by Mr Lynch as "pure serendipity", will be gradually eroded. Last month, the company announced it was no longer presenting its accounts in Irish pounds but in US dollars. The first Irish company to list on the Nasdaq, Elan is now 80 per cent owned by US institutions.

Even Irish investors tend to purchase the American Depositary Receipt, traded in New York, rather than Elan shares sold through the Dublin market, where there is a fraction of the liquidity.

The company still has its principal factory in Athlone in West Meath and a research laboratory at Trinity. The attraction of the Irish domicile is the Irish tax regime – 10 per cent manufacturing corporation tax, and zero rate on royalty and licence income – which has helped keep Elan's global tax rate to less than 1 per cent.

But as Mr Lynch says, over the longer term the merged group is likely to be less able to avail itself of the favourable tax treatment as more manufacturing is done outside Ireland.

Elan looked at other partners – including Medeva, the UK drugs concern, and the pharmaceutical side of Boots, the chemist.

Mr Richard Vietor, senior pharmaceutical analyst at Merrill Lynch in New York, believes the Athena deal "accelerated a development that would have happened anyway". He says the merger was pulled off at just the right time as Athena moves from losses to profits.

Athena shareholders now own 20 per cent of the enlarged group. According to Mr Lynch: "That may look like an acquisition. But in management terms 50 per cent is drawn from Athena. The way I would characterise it is as the merger of the two businesses through the acquisition of Athena."

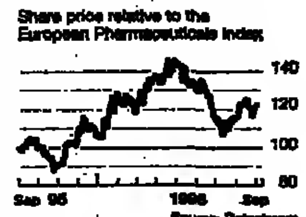
John Murray Brown

Elan delivers growth

	Earnings per share $	Price Earnings	Cashflow/share $	price/cashflow
[illegible]	[illegible]	[illegible]	2.58	22.2
1996	2.90	20.5	3.16	18.2
[illegible]	[illegible]	[illegible]	4.10	9.9

Source: Merrill Lynch

Share price relative to the European Pharmaceuticals index



Source: Datastream

Products and pipeline pre-Athena

Therapeutic category	Indication	Class/mechanism of action	Brand name	Generic name	Sales ($m) 94	95	96	97	98
[illegible]	[illegible]	[illegible]	Naprelan	naproxen	n/a	n/a	60	120	165
Cardiovascular	Hypertension	Ca antagonist	Verelan	naproxen	90	80	75	70	70
[illegible]	[illegible]	[illegible]	Prostep	nicotine	36	38	41	44	n/a
Immunology	Multiple Sclerosis	K Channel opener	Fampridine	4 amino pyridine	n/a	n/a	n/a	n/a	20
[illegible]	[illegible]	[illegible]	Cardizem CD	Diltiazem 1 per day	708	775	775	670	640
[illegible]	[illegible]	antagonist	Cardizem SR	Diltiazem 2 per day	147	128	105	105	95

Source: Lehman Bros

PCS to lead fertiliser sector with $1.2bn takeover

By Bernard Simon in Toronto

Potash Corporation of Saskatchewan will become the world's biggest integrated fertiliser producer with a proposed US$1.2bn deal to acquire Tennessee-based Arcadian Corp.

Arcadian has agreed to PCS's offer of cash and shares, which tops last month's US$1.06bn all-share offer by Freeport-McMoRan, the New Orleans-based mining group.

PCS has emerged as an aggressive, fast-growing operator in international fertiliser markets since being privatised by Saskatchewan's provincial government in 1989.

It is currently in the process of buying a 51 per cent stake in Kali und Salz, a large German potash and salt producer controlled by BASF, the German chemicals group.

PCS's sales more than doubled last year to C$907m (US$653.3m) after its entry into the phosphate business with the acquisition of Texasgulf. Net income has grown almost tenfold since 1990, partly as a result of large tax-loss carry-forwards.

A New York-based analyst said: "Every deal they've done has been highly accretive to earnings."

Arcadian is the biggest western hemisphere supplier of nitrogen-based fertilisers, complementing PCS's strength in potash and phosphates.

Mr William McMinn, Arcadian chairman, said the deal would create "a major force in all three primary nutrients, allowing for the unique ability of the combined entity to be a 'one-stop' producer and supplier of the primary fertiliser nutrients".

One analyst said PCS was "picking up one of the best companies in the nitrogen business".

PCS has offered US$25-US$27 for each of Arcadian's 45.5m shares, of which $12.25 will be in cash. The ratio of PCS to Arcadian shares will be adjusted if PCS's share price moves out of a specified range.

PCS shares, which are listed in New York and Toronto, have performed strongly, more than quadrupling in the past three years. But the shares lost C$3.20 to C$100.30 in early trading in Toronto yesterday.

Nitrogen producers generally trade at a lower price-earnings multiple than potash and phospate suppliers, reflecting concerns about over-supply in this part of the fertiliser market.

Rising global demand drives consolidation

The combination of Potash Corp of Saskatchewan and Arcadian accelerates the consolidation of the global fertiliser business, writes Laurie Morse in Chicago. That consolidation began as a way of managing supply surpluses four years ago, but is now driven by projections for rising global demand for food and the components of its production.

With global food supplies at historically low levels, analysts say the outlook for companies that produce soil nutrients – potash, potassium and nitrogen – could not be better. "The bids for Arcadian show that companies in the industry understand the appreciation in value better than the market itself," said Mr David Nelson, securities analyst with NatWest Securities.

Last November, Chicago-based IMC Global acquired another Chicago fertiliser maker, Vigoro, in a $1.16bn transaction that consolidated IMC's potash and nitrogen capabilities and gave the combined company about 50 per cent of the North American potash market.

In 1993, a slump in the phosphate fertiliser business prompted IMC and Freeport-McMoRan Resource Partners to combine their phosphate mining operations, in a joint venture called IMC-Agrico.

This limited production which, combined with a resurgence in global demand, has eliminated phosphate surpluses. The IMC-Agrico joint venture controls about 42 per cent of North American phosphate rock production, making it the largest US producer.

Cisco pays $220m for technology developer

By Louise Kehoe in San Francisco

Cisco Systems, the leading manufacturer of Internet computer networking equipment, yesterday agreed to acquire Granite Systems, a privately-held Silicon Valley networking technology developer, for about $220m in stock.

The acquisition is Cisco's eleventh in the past three years, including the $4bn purchase of Stratacom in April, all aimed at broadening its product line and augmenting in-house technology development.

Cisco has supplied an estimated 80 per cent of the "routers", or data traffic directors, for the Internet.

It said that its intent in acquiring Granite was to give customers a wider choice of technologies for use in the high speed "backbone" links used to connect computer networks across corporate and university campuses.

Granite has developed technology that can move data at a rate of 1bn bits per second while adhering to established networking standards.

The new technology will help alleviate data traffic congestion on private and public computer networks, which are becoming increasingly crowded by new users using multimedia applications with graphics and sound as well as text.

Granite Systems, which has about 50 employees, was founded last year by Mr Andy Bechtolsheim, a co-founder and former vice-president of Sun Microsystems, the leading computer workstation manufacturer. Mr Bechtolsheim and Granite's employees will now join Cisco.

The acquisition reflects a broad trend toward consolidation in the networking equipment industry that is expected to continue as a handful of the largest companies move to dominate the fast growing market.

Cisco has said that it plans a further six to 10 acquisitions over the next 12 months.

Last month Cisco reported an 83 per cent jump in fiscal 1996 sales, to $4.1bn. Net income for the year rose 100 per cent to $913.3m.

Cisco's share price remained virtually stable yesterday, despite a broad sell off in US stocks.

The company's shares were trading at $52⅝ in mid-session yesterday, down slightly from $52¾ at Friday's close.

AT&T eyes Daimler mobile phone alliance

By Michael Lindemann in Bonn

AT&T, the largest US telecoms operator, is considering an alliance with Daimler-Benz, Germany's largest industrial conglomerate, in order to join what is likely to be a hotly contested bid for Garmany's fourth digital mobile phone licence.

The management board of Debis, the telecoms and services division of Daimler-Benz, is due to approve a decision to make a bid at its board meeting tomorrow. AT&T said it was looking at "interesting opportunities" in mobile telephony across Europe and needed a "strong, local" partner in Germany.

Should AT&T join forces with Debis, the consortium would provide a formidable challenge to the three-way telecoms alliance created by the two German utilities, RWE and Viag, and British Telecommunications, the UK operator – the only other grouping known to be desperate to gain a foothold in Germany's rapidly growing mobile phone market.

If the two consortia face each other in a head-on bid there is also likely to be a crucial political show-down given that they will be supported respectively by the governments of Baden-Württemberg and Bavaria, Germany's two richest Länder, or states.

AT&T's lawyers are trying to establish whether there is a factual link between the US group and Mannesmann, the German engineering and telecoms group, with whom AT&T has a telecoms venture, CNI Communications Network International.

AT&T insists there is no equity or management overlap between Mannesmann Eurokom, the unit overseeing CNI, and Mannesmann's mobile phone operations. If such a link exists, however, AT&T's bid would be jeopardised because existing mobile phone operators such as Mannesmann may not bid for the fourth licence.

To complicate matters further the management board of Daimler-Benz is undecided about whether to back a bid for the licence. The board is likely to make a final decision in two weeks.

Mr Jürgen Schrempp, Daimler-Benz chief executive, has extensively restructured the group and is known to be looking to expand certain activities following the withdrawal from Fokker and other regional aircraft businesses.

Mr Schrempp has indicated that telecoms is a potentially interesting business but it remains unclear whether the initially high investments can be justified at a time when efforts are being made to re-focus Daimler-Benz as a transportation group.

However, Debitel, the telecoms unit within Debis, already has a strong position in the mobile phone market where it functions as a so-called service provider with ovar 870,000 clients across Europe.

A bid for the licence would give Debitel the right to build its own network, reducing its dependence as a service provider on companies such as Deutsche Telekom and Mannesmann which own their own networks.

According to press reports, Stet, the Italian telecoms group, has also expressed an interest in the licence but telecoms industry executives suggested that the group was not regarded as a serious bidder.

Bids for the fourth licence, which has been dubbed E-2, have to be submitted by October 15. The successful candidate will be announced on February 4, and can begin operations in May 1997, four years after E-Plus, the third mobile phone operator, came into being.

Reuter

Jürgen Schrempp: looking to expand Daimler activities

Brazil expected to back OTC stock market

By Jonathan Wheatley in São Paulo

Brazil's securities commission, the CVM, is expected this week to approve plans to launch the country's first organised over-the-counter stock market.

The market, known as the SOMA, was devised by the Rio de Janeiro and Paraná stock exchanges, and is expected initially to attract companies with annual turnover of up to R$100m (US$98.4m).

A rival project, the Mercado Brasileiro de Balcão, is being prepared by the São Paulo Stock Exchange (Bovespa) and six smaller exchanges.

Mr Marcelo Salgado, director of market davelopment at the Rio de Janeiro Stock Exchange (BVRJ), said tha SOMA could rival Brazil's traditional bourses by the beginning of the next decade.

"Remember that Nasdaq was a back-yard operation 25 years ago and is now challenging the leadership of the New York Stock Exchange," he said.

The SOMA was expected to attract business from companies currently trading on Brazil's informal over-the-counter markets, from companies not currently trading, and from some public companies trading on the traditional bourses.

Mr Salgado aald tha market should begin operating in October.

"The big innovation at the SOMA is that registration of a company's shares will not depend on the company," he said.

"Investors can trade the shares of any company that meets tha CVM's reqnirements, with or without approval of the company."

The CVM issued regulations covering over-the-counter markets in June. It also ruled that less stringent disclosure requirements should apply to public companies with turnover of less than R$100m, irrespective of where their shares are traded.

According to the ruling, for example, smaller companies must publish audited results once rather than four times a year.

Mr Salgado said the SOMA would initially attract smaller companies because of the CVM ruling and because the market would charge a flat annual fee of R$5,000 to companies requesting registration.

The rival market in Sao Paulo plans to undercut the SOMA by not charging companies during its first two years.

Mr Salgado, however, said SOMA had attracted a higher level of interest. Initial listings were expected to include about 20 etate telephone companies *not* currently traded on traditional bourses.

Mr Alberto Alves Sobrinho of Fair Corretora, a São Paulo brokerage, welcomed the arrival of the new markets but said their future depended on factors beyond their control.

"Anything that helps to increase liquidity and bring more companies to market is good news," he said.

"But the markets will only prosper if inflation remains low and interest rates fall."

Brazil and Bolivia sign deal for gas pipeline

By Jonathan Wheatley

Presidents Fernando Henrique Cardoso of Brazil and Gonzalo Sánchez de Lozada of Bolivia will today sign contracts for the construction of a 3,000km natural gas pipeline between Bolivia and Brazil.

The signing will ratify agreements reached between Petrobras, tha Brazilian state oil company, and YPFB, its Bolivian counterpart last month.

The pipeline will cost an estimated US$1.8bn and is expected to begin operation at the end of 1998, carrying an initial 8m cubic metres of natural gas a day to southern Brazil, rising later to 30m.

Petrobras will be project manager on the Bolivian side where construction is expected to cost $400m.

Petrobras will provide $280m in advance payments for gas to YPFB and an additional $81m in a "transport capacity option". The remainder will be provided by equity from the projects partners. YPFB will repay Petrobras over a period of 12 years.

On the Bolivian side, a joint venture between YPFB and Enron of the US owns 85 per cent of the project.

Petrobras has 9 per cent and BTB, a consortium formed by British Gas, Tenneco of the US and BHP Petroleum of Australia, has 6 per cent.

On the Brazilian side, Petrobras has 51 per cent of the project. BTB has 25 per cent and YPFB and Enron 20 per cent, with the remaining 4 per cent held by Brazilian investors.

COMPANIES AND FINANCE: ASIA-PACIFIC

Black attacks Canberra over Fairfax

By Nikki Tait in Sydney

Mr Conrad Black, the Canadian media proprietor who holds a 25 per cent interest in Australia's John Fairfax publishing group, yesterday attempted to scotch rumours that he was looking to sell the stake – however, he lashed out at the Australian federal government, saying he was "exasperated" by the lack of progress on the country's media ownership policy.

In a rare formal statement on the Fairfax situation, Mr Black said: "Our enthusiasm for Fairfax and for raising our stake in it are undimmed." There was no financial pressure on his corporate interests to cash in the Fairfax interest, and "disposable cash flows are rising sharply, making us more able than ever to increase our shareholding if we are permitted to do so". The stake is worth about A$500m (US$395m).

Mr Black, who holds the Fairfax interest through his UK-based Telegraph group and effectively has management control of the Australian newspaper publisher, has been unable to raise the holding further because of the country's restrictions on foreign media ownership.

Mr Kerry Packer, the Australian businessman, and Mr Rupert Murdoch, the international media proprietor, are also on Fairfax's share register – with the former admitting he would like outright ownership.

However, they are constrained by media cross-ownership rules.

The new conservative coalition government promised to hold a review of the media ownership rules after its election. But six months have now passed, and the inquiry has yet to be set up.

Mr Black's strong statement appears to have been triggered by a weekend interview with Senator Richard Alston, Australia's communications minister.

In this, Mr Alston mooted, in vague terms, the possible future break-up of the Fairfax group, with its main titles – including The Age in Melbourne, the Sydney Morning Herald and the Australian Financial Review – being divided between different proprietors.

These comments followed a newspaper report that Mr Black was seeking institutional buyers for his stake, although the broking firm said to be involved denied this.

Yesterday, Mr Black said: "Wildly inaccurate public musing by the minister of communications regarding the sale of our shareholding or the break-up of the Fairfax Group is no more helpful to any legitimate interest than was the erratic conduct of some of his predecessors."

Mr Black summarised his view of the situation as a "complete impasse, with no indications of a change in government policy and no disposition by us to sell".

Sir Laurence Street, Fairfax chairman, said the speculation had "the potential to be destabilising both in the marketplace and among our staff".

Air NZ opened to 49% foreign control

By Terry Hall in Wellington

On a path to open skies: the move by the New Zealand government follows Air NZ's deal with TNT to buy half of Ansett

Foreign shareholders may own up to 49 per cent of Air New Zealand, the government announced last night. The move is seen as a further step in establishing the so-called "open skies" policies between Australia and New Zealand which are being encouraged by both governments.

The Australian government allowed 49 per cent foreign ownership when Qantas was privatised.

The move follows Monday's announcement that Air New Zealand had entered into an agreement with TNT of Australia to buy 50 per cent of Ansett Holdings of Australia for a total outlay of A$475m (US$376m).

The move will double the size of Air New Zealand, but is conditional on the outcome of an Australian Foreign Investment Review due to be announced on September 26. An extraordinary meeting of Air New Zealand shareholders is being called a day later to approve the deal.

The government said in a statement that lifting Air New Zealand's shareholding limit from 35 to 49 per cent was a move towards harmonising the single aviation market between the countries.

However, restrictions had been put in place preventing any airline owning more than 25 per cent, or any group of airlines owning more than 35 per cent, of Air New Zealand. At present Qantas, whose largest aviation shareholder is British Airways, owns 20 per cent of Air New Zealand. Brierley Investments, with 42.5 per cent, is the airline's major shareholder.

Air New Zealand said yesterday that the Ansett purchase would be "relatively profit-neutral" in the short term, as revenue benefits and cost efficiencies were offset by increased net interest costs. Of the total money being outlaid for the purchase, A$325m will be paid to TNT for its stake and a further A$150m will be injected as additional capital.

Air New Zealand said it will fund the purchase primarily through cash reserves of NZ$350m and borrowings of NZ$190m. However, to reinforce its balance sheet after the transaction it will raise NZ$240m through a renounceable rights issue to existing shareholders.

Shareholders will be offered three new ordinary shares for every 11 shares held at NZ$2 a share. In line with the government's decision to allow greater foreign ownership, the new shares will be reclassified as "B", or overseas, shareholder stock.

The move saw an immediate drop in the value of Air New Zealand's "B" shares by around 45 cents to NZ$3.90.

Air NZ fleet

No of Units	Type of Aircraft
5	Boeing 747-400
5	Boeing 747-200
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
6	Boeing 737-300, 1998 delivery
1	767-300ER due May 97

* Including one leased to Air Pacific. Source: Flight International

Write-down forces ANI into A$213m loss

By Nikki Tait

Australian National Industries, the heavy engineering group, yesterday announced that it was writing down the value of its troubled German environmental engineering subsidiary Hölter by A$234m, driving the group as a whole to a A$213m (US$169m) loss in the year to end-June.

Even before the write-downs, operating profits were below those of the previous year. Earnings before interest costs dipped from A$140m to A$64.9m despite a 6 per cent gain in sales to A$1.97bn.

The group's main operations, which include the Aurora steel products unit in the UK, saw profits fall by 19.1 per cent to A$105.3m, while the Coates Hire equipment hire business, which was floated on the stockmarket last month, edged ahead from A$14.4m to A$15.1m.

Net interest charges rose from A$34.4m to A$41.9m, while abnormal losses after tax totalled A$196.6m, explained mainly by the Hölter write-down.

Hölter saw losses increase significantly in the year, from A$4.5m the previous year to A$55.5m.

ANI blamed the result at Hölter on cost overruns, technical difficulties and delays in commissioning waste-to-energy plants. It said it expected to make losses totalling A$10m on waste-to-energy contracts at Glen and Mulhouse in France, and had accounted for these in the 1995/6 results.

ANI, which first acquired an interest in Hölter in 1991, said management changes had been implemented at the German business and it was hopeful that long-standing contracts in Madrid and Berlin could be completed in 1996/7. It also said that long-running talks with Germany's Saarbergwerke over a possible merger were being pursued, as were other unspecified "possibilities for the merger or joint-venturing of Hölter business".

Mr Peter Stancliffe, ANI managing director, added that he hoped to be able to say by the end of the month whether a deal with Saarbergwerke was possible. He stressed that the solution might mean "joint-venturing" some of Hölter's business with Saarbergwerke, keeping other parts, and disposing of the remainder.

The company also released the details of its business strategy review, which recommended refocusing on ANI's traditional metals and engineering businesses, with other assets to be either "revitalised" or sold.

Hong Kong markets seek to strengthen regulator

By John Ridding in Hong Kong

Hong Kong's markets watchdog will seek extra funding to increase its auditing staff, after disclosure of alleged misconduct at Jardine Fleming, the territory's biggest fund manager.

Mr Anthony Neoh, chairman of the Securities and Futures Commission, said the regulator planned to expand manpower in its 30-member supervisory division.

But he said the problems at Jardine Fleming Investment Management had increased the importance of the matter.

Speaking before a session of Hong Kong's legislative council, convened to discuss the affair, the SFC chief said he would also consider pushing for legislation against "rat trading", where brokers pocket the margin between the price of trades conducted for clients and the price level they declare.

The aim would be to strengthen the SFC's armoury in the absence of a broader bill, long under discussion.

Describing the Jardine Fleming incident as a "one-off", the SFC said more than 30 fund managers at the firm had been scrutinised during the investigation but no other alleged misconduct had been found.

Jardine Fleming had oot admitted liability and had taken steps to tighten its compliance and management systems, the regulator added.

The SFC, also pushing for the power to impose fines, said the affair showed its determination to enforce compliance standards and ensure transparent markets.

"This is one of the biggest amounts ever disgorged, not just in Hong Kong but in the US and Europe as well," Mr Gerard McMahon, head of enforcement at the SFC, said, referring to compensation payments of US$19.3m by Jardine Fleming.

Mr McMahon said the case had been examined to assess whether criminal acts had occurred, bnt the transactions which had been reviewed did not constitute a criminal offence.

Jardine Fleming has suffered a blow to its reputation because of the affair. But a government official said the administration would not bar the firm from participating in the territory's planned compulsory pension scheme because of this isolated incident.

NEWS DIGEST

Qantas close to deal with unions

Qantas, the privatised Australian carrier, said yesterday that it was close to finalising a new labour contract with its unions. These would give employees four wage increases of 2 per cent for the next two years, it said.

Qantas has stressed that it does not intend to chase market share at the expense of margins, and warned that this would mean continued pressure for cost reductions to compensate for lower revenue growth. The labour negotiations, which have been under way for some weeks, have been closely watched by analysts.

The airline, in which British Airways holds a 25 per cent stake, said it hoped to finalise an agreement with the unions next week, so it can be put to members for ratification in the following weeks. *Nikki Tait, Sydney*

Dominion plans options issue

Dominion Mining, the Australian mining group which last year sold off the bulk of its gold assets, yesterday announced plans for a non-renounceable issue of options to existing shareholders, on a one-for-two basis. Each option will allow its holder to subscribe for one new Dominion share at 70 cents up until December 1998.

Dominion said that the issue was designed to provide funds to facilitate its future development of the Yakabindie nickel project in Western Australia and the Gawler gold project in South Australia. It added that discussions with potential, but unspecified, partners over Yakabindie's development were "progressing". The larger Melbourne-based North group was originally lined up as partner on the A$470m Yakabindie project, but baulked at the terms of the planned deal.

Dominion also announced a A$39.6m (US$29.1m) profit after tax for the year to end-June, largely reflecting the abnormal gain on asset sales of A$38.2m. Dominion shares closed steady at 70 cents. *Nikki Tait*

Highlands Gold in the red

Highlands Gold, the Papua New Guinea-based mining group which was formerly controlled by Australia's MIM, has made a loss of K11m (US$8.3m) in the year to end-June, compared with a small K7.7m profit in the previous year. The group's main producing asset is a 25 per cent stake in the large Porgera goldmine.

The group also announced a change in accounting policies, reducing the written-down value of the Porgera fixed assets by K60.6m. This led to a reduced depreciation charge – some K8m lower at K28.3m. *Nikki Tait*

Nippon to issue Y51bn stocks

Nippon Credit Bank said yesterday it would issue preferred stocks worth Y51bn ($467m) on September 30 for third-party allotment to enhance its management standing.

The bank will allocate the stocks to an investment co-operative of related companies and others to limit the effects on the stock market, bank officials said.

With the stock issuance, the bank expects to raise its capital adequacy ratio by 0.43 percentage point from the 8.38 per cent recorded in March 1996, the officials said.

The growth in the ratio is expected to double if the bank counts preferred securities issued by an overseas subsidiary as supplementary capital, although it has yet to decide on the matter, they said.

The bank planned that Y50bn worth of securities would be treated as "tier 1 capital," set by the Bank for International Settlements (BIS) standards as a numerator for calculating capital adequacy.

The finance ministry, however, suggested that the securities might be "tier 2", or supplementary capital, meaning they would be only partially counted as "tier 1 capital". *Kyodo, Tokyo*

Hyundai and Renault venture

Hyundai Motor said it would sign a joint venture contract next week with Renault to build a car plant in Kedah, Malaysia. Hyundai and Renault will hold a 15 per cent stake each and the Malaysian government and unspecified local companies the balance.

The details of the investment would be known next week, it said. Under the contract, Hyundai and Renault will operate separate assembly lines. Renault will start manufacturing buses from late 1997 and Hyundai will begin output of 1.5-tonne trucks from early 1998. *AFX Asia, Seoul*

CONTRACTS & TENDERS

NOTICE OF AUCTION

Bankruptcy no. 54971 Srl "IMAC", Bankruptcy Court of Rome. At 11.45 am on 30.10.96, the Official Receiver Dott. Moselli is to sell by auction, in a single lot with base price Lit. 21,000,000,000, leading Italian company, still in business, producer of polimglass roofing panels end accessorias (machinery, commercial activity etc.); provisional carrying on of businss 30.6.97, with 29 employees plus 8 in C.I.G.S. (redundancy); CTU (technical) reports of 19.9.94, 8.12.95. Written offers (according to articles 4 and 5 of the sale procedure) with bank draft made out to Fall. 54971 deposit and expenses 30% of base price by 1 pm on the day prior to the hearing, minimum bid Lit. 200,000,000, the first of which obligatory; total of deposit and expenses to be paid 48 hours after adjudication, balance 60 days after adjudication, same payment methods. Information from raceiver, +39/6/35403222, or the company, +39/6/66417145, Messrs. Bon, Urzia, Sarra. Official report from the Chancery. Company visits to be arranged 15 days prior to the auction.

MORGAN GRENFELL'S TROUBLED FUNDS

The UK unit trust market suffered a serious upset on Monday, with the suspension of three investment funds containing £1.4bn and managed by Morgan Grenfell Asset Management. The biggest, its European Growth Fund, was managed by Peter Young, an intense 38-year-old who has gained plaudits for risk-taking. However, Young's purchase of a high proportion of unlisted and little-known Scandinavian stocks for his portfolio is being investigated by MGAM and City regulators. FT reporters investigate how this could have happened in what is regarded as one of the safest and most reliable ways for ordinary people to invest.

■ **HOW COULD IT HAPPEN?** – By John Gapper and Roger Taylor

Upset casts doubt on controls

The suspension of three Morgan Grenfell investment funds is a rare event in financial markets, for it involves an upset in what is reputed to be one of the safest and best-regulated forms of financial investment.

Unit trusts bave been known both for their predictability compared with direct investments in single securities, and for being overseen well. The suspension of the MGAM funds casts doubt on whether they are as safe as they seem.

The investigation launched by the Investment Management and Regulatory Organisation (Imro) is focusing on an arcane area for most unit trusts. It involves their usually small holdings in unlisted and unquoted securities.

These are harder to value and predict than listed securities on large stock exchanges, but they can attract asset managers willing to take a chance on their providing stronger returns.

There are two safeguards preventing unit trusts abusing the freedom to buy unquoted securities: fund managers are overseen by trustees and there are strict limits on the ratio of such securities that can be held.

However there are relatively lax rules on such securities are valued. There is no requirement for them to be independently valned, and City regulators only require a manager's "reasonable estimate" of the value.

The European Growth Trust – the largest of the two unit trusts involved – held a high proportion of unlisted shares. The rules of City regulators should ensure that these shares were bought and valued appropriately by Mr Peter Young, the manager who has been suspended.

The trustee of the European Growth Fund until earlier this year was General Accident. This duty then passed to Royal Bank of Scotland, which has been responsible for ensuring thet the shares are safe and the trust is well managed.

These external controls on Mr Young were supplemented by an internal control procedure that was supposed to ensure that he did not make wild investments. He had to submit his portfolio to scrutiny by his "peer group" on a regular basis.

Mr Young worked in the international division of MGAM. Its chief investment officer is Mr Glyn Owen, and it includes 13 other managers, inclnding Mr Stuart Armer, manager of the two other suspended funds.

In practice, none of the controls stopped Mr Young from building up his portfolio. He also managed to stay inside the letter of City regulations governing the concentration of ahares held within unit trust portfolios.

These say that no more than 10 per cent of a portfolio can be held in "unapproved securities".

But there is room for manoeuvre in the fact that an unlisted security thet is due to come to market soon can be included as an "approved" security. This allowed Mr Young to bold up to 30 per cent of his fund in unlisted securities. The valuation of unlisted securities is in practice usually carried out by brokers who place the shares with the managers of funds. In most firms, the fund manager has to sign off these valuations to ensure a second opinion.

However, some argue that there is a considerable weakness in the fact that no independent valnation is required. This potentially allows a fund manager to mis-value holdings, provided the relevant broker agrees with him.

Mr Kelvin King, a partner of Corporate Valuations, one of the few independent firms of valuers, says this is a flaw in the framework. "These assets can be the most valuable, but they are also the hardest to valne," he says.

Mr Dean Handley, chairman of the collective investment committee of The Association of Corporate Trustees said there was no set way for trustees to ensure that the valuations of unlisted securities were accurate.

"It's something of a moving target. Managers like to work in different ways," he says. But this leaves the chance that a crisis can erupt when the valuation of assets comes to be tested.

The incident could damage the confidence of investors in unit trusts, since safeguards seem to have failed to prevent Mr Young building up a portfollo thet has led to his suspension and investigation by regulators.

Mr Clive Boothman, the chairman of the Association of Unit Trusts and Investment Funds, argues that Deutsche Bank's move to absorb the contested securities will prevent this loss of confidence.

"I would like to think thet peopla will see it for what It is: an isolated example of a problem from which we may learn some lessons," he says. The unit trust industry must hope he is right in believing that normal service can resume.

Regulators' rules for managing unit trusts

- No more than 10% of portfolio may be in "unapproved securities" such as unlisted shares
- No more than 5% of a portfolio must be held in a single share
- Unlisted securities to be valued at "manager's reasonable estimate" of how much they are worth
- Managers should "maintain a record of the source and basis for the value placed on the investment"
- Managers must "take all reasonable steps and exercise due diligence to avoid the property of the scheme being incorrectly priced"
- Trustees have a fiduciary duty to oversee fund managers, and ensure that they comply with rules

Securities and Investments Board regulations for collective investment schemes 1991; Investment Regulatory Organisation guidance

■ **PETER YOUNG** – By Nicholas Denton

An unlikely source of trouble

Mr Peter Young, the fund manager suspended by Morgan Grenfell Asset Management, is an unlikely company. Like Mr Nick Leeson of Barings and Mr Colin Armstrong of Flemings, he has embarrassed a traditional City institution.

But unlike them – seen by their colleagues as brash characters intoxicated by professional stardom – Mr Young is a modest and softly spoken actuary. Work acquaintances have almost no criticism of him.

"He was a quiet guy. To be honest, none of us knew him very well," said a Morgan Grenfell fund manager. And few believe him capable of any sort of dishonesty. "I would be absolutely gobsmacked if he had done anything wrong," said a former colleague.

Mr Young, 38, graduated from Oxford University with a degree in mathematics. After training as an actuary, he joined Equity & Law, the life assurance company, as a bond analyst. His career progressed rapidly; he became a portfolio manager specialising in the continental European equities which were to be his claim to fame and which led to his suspension.

In 1990 Mr Young joined Mercury Asset Management, before switching to Morgan Grenfell in 1992. Former colleagues remember him as a highly professional fund manager. He left because Morgan Grenfell made him a better offer.

As a senior European manager at Morgan Grenfell, Mr Young worked under Mr John Armitage on the management of MG European Growth. Relations between the two men were smooth, colleagues say. Mr Armitage left Morgan Grenfell in May 1994 to work at Egerton Capital, the hedge fund. Mr Young took control of European Growth.

Mr Young's personality came through in his fund management style. After carefully reasoning his investment strategy, Mr Young was unafraid of breaking away from the herd. He appears to have had a quiet confidence born of intellectual ability.

Initially, Mr Young's faith in technology stocks served European Growth well. The fund continued to outperform its European benchmark index. But when high-tech stocks fell out of favour in the fourth quarter of 1995, European Growth was hard hit.

Mr Young, still firm in his belief, was reluctant to change course just because other investors were turning away from technology stocks. "We try to avoid going with market sentiment," he recently told Money Marketing, the trade magazine. "There is no reason to switch." But there is now doubt about the valuation of stocks in European Growth's portfolio.

Mr Young spent most of yesterday with his family at the new house in Sycamore Close in Amersham, Buckinghamshire, which they recently bought for about £450,000. His wife went shopping in their red Saab 9000. It was an outwardly ordinary day in the stockbroker belt around London, for a fund manager who had until recently appeared clever but otherwise unexceptional. Mr Young, so different from Mr Leeson and Mr Armstrong, has shown that embarrassment comes in many flavours.

■ **FUND MAKE-UP** – By Roger Taylor

Portfolio surprises European managers

European fund managers yesterday said they were surprised at the portfolio of investments held in the Morgan Grenfell European Growth Trust.

Professional investors wondered how Mr Peter Young, manager of the fund, bad been able to build up large holdings in little-known and often second-rate companies without anyone at Morgan Grenfell questioning his activities.

An examination of the investments held in the fund (see chart, right) reveals Mr Young taking some large investment bets.

The European Growth fund is the largest of the three Morgan Grenfell European funds in which dealing was suspended yesterday. The other two – the Europa fund and the European Capital Growth fund – had a number of holdings in common with the larger fund.

One experienced fund manager said: "People are now looking in detail at the portfolio and are surprised at the low quality. We know the European markets pretty well but we do not recognise a lot of these stocks. Thesa names are very strange to see as large holdings in this fund."

In the event of large numbers of investors deciding to cash in their investments, Morgan Grenfell could find it impossibla to sell any poor-quality boldings. However Dentsche Bank has agreed to buy in these holdings to shield investors.

Rivals expressed surprise that Morgan Grenfell could have allowed Mr Young to build up large holdings in ralativaly unknown and unquoted stocks. The fund contrasts strongly with the more conservatively managed portfolios of many of Morgan Grenfell's other European Equity funds.

The fund has high levels of investment in Scandinavia. In itself, this is not unusual. Spectacular returns from many of these markets had encouraged fund managers to go heavily overweight in them.

More exceptional is the high level of unlisted holdings. Valuing unlisted securities accurately is difficult, and allows greater scope for manipulation.

One fund manager said: "Thera are one or two solid investments hut most of it is real rubbish."

Even among the largest listed holdings in the fund there are some surprises. The best-known stocks, such as British Biotech and JKX Gas, tend to be speculative. Other names, such as Sintercast and Tietotehdas, were new to many experienced investors.

The unlisted securities are even more obscure. The two largest, Medtech and Oralmed, holding companies for German bealthcare stocks, together accounted for almost 8 per cent of the fund at the last year-end in May. But market analysts did not recognise the names.

Eqnally mysterious are the Norwegian unlisted stocks. Until recently these also accounted for a large proportion of the fund. At the end of 1995, Systeminvest, Loginvest, Horten Technology and Waferprod accounted for almost 10 per cent of the fund. These companies are also holding companies, which initially invested in Norwegian high-tech companies.

They were bought for the fund by Fiba Nordic Securities, which specialises in unlisted Scandinavian shares. Fiba Nordic for a while also valued the stocks for Morgan Grenfell.

However Fiba Nordic stressed that these were not shares it recommended or had ever researched. It said it was acting on the instructions of its client Morgan Grenfell.

Furthermore, it added that it had recently decided to stop providing valuations for these stocks, not because of irregularities but because providing valuations was not Fiba's principal line of business.

It also said the changing nature of the stocks was making it harder for them to value properly.

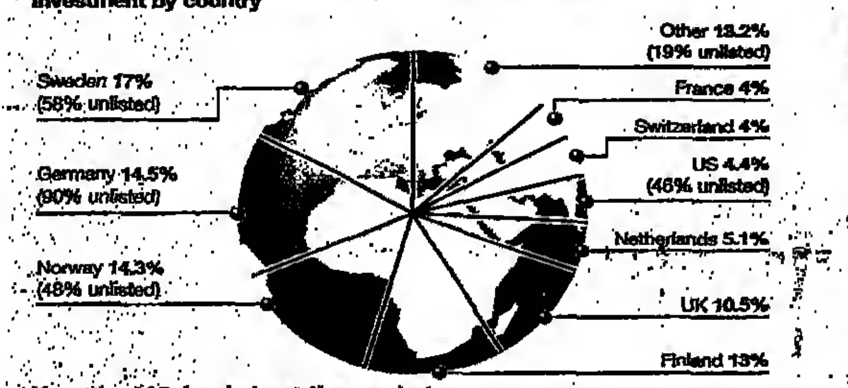
Responsibility for valuing the stocks was then taken over by Ice Securities, a boutique investment banking partnership with eight partners, specialising in Italian and Central European equities.

Ice refused to confirm or deny whether it was involved in the Morgan Grenfell inquiry but said it bad been talking to tha Securities and Futures

MG AM Examining the portfolio

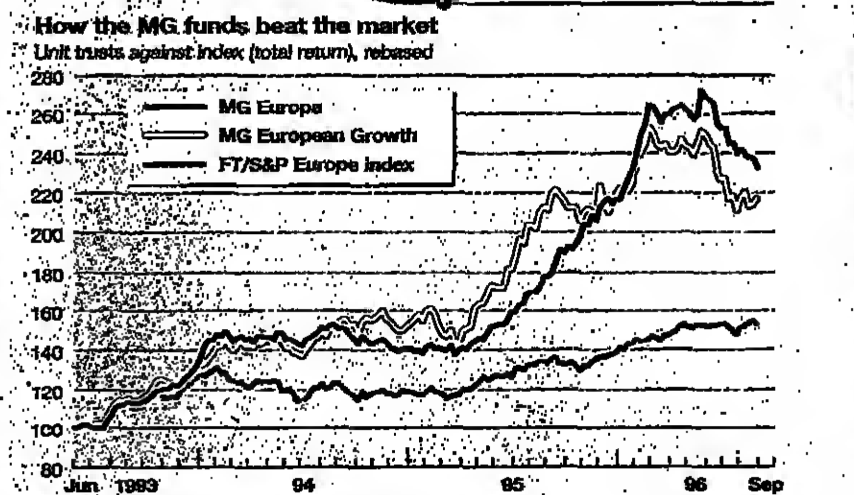
Morgan Grenfell European Growth Fund as at May 31 1996

Investment by country



How the MG funds beat the market

Unit trusts against index (total return), rebased

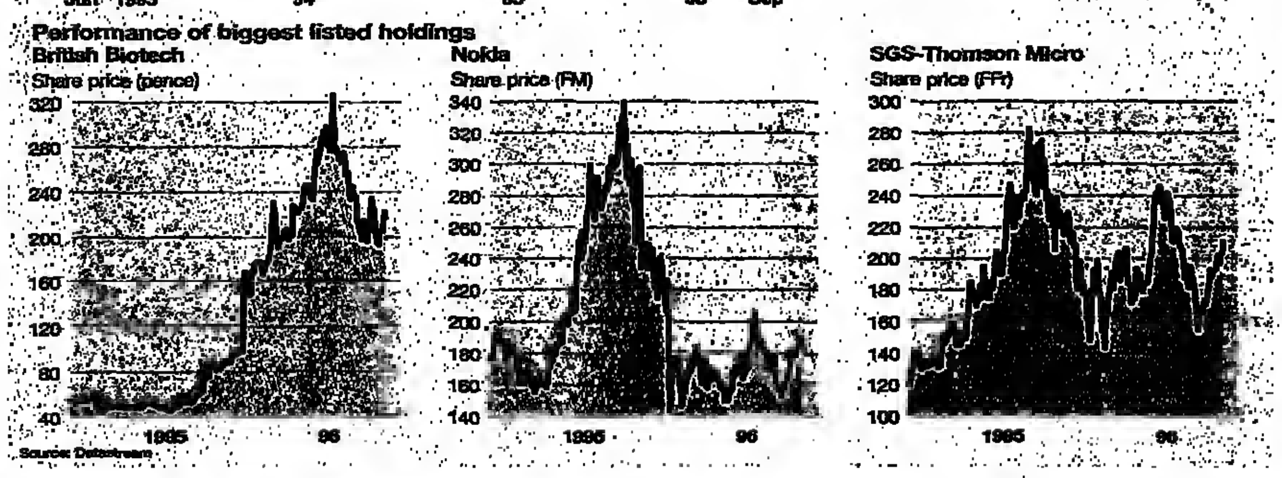


Biggest holdings

Top ten listed equities		
British Biotech	UK	6.91%
Nokia	Finland	5.84%
ASM Lithography	Neth.	5.12%
SGS-Thomson Micro	France	3.89%
Nera AS	Norway	3.47%
Tietotehdas	Finland	2.21%
Sintercast	Sweden	2.02%
Pricer	[illegible]	[illegible]
Austria Mikro Systeme	Austria	1.71%
JKX Oil and Gas	UK	[illegible]

Top ten unlisted equities		
Medtech	Germany	4.12%
Oralmed	Germany	3.68%
Sandvest Petroleum	Germany	3.03%
Alutux Mining	Germany	2.42%
Cathrineholm	Sweden	2.10%
Celltek Holding	Sweden	1.89%
Systeminvest	Norway	1.31%
Loginvest	Norway	1.10%
Horten Technology	Norway	1.05%
Waferprod Holdings	Norway	1.00%

Performance of biggest listed holdings



■ **OUTLOOK FOR INVESTORS** – By George Graham

Advisers urge clients to stay calm

Financial advisers around the UK yesterday faced a barrage of questions from anxious investors about the fate of their holdings in the suspended Morgan Grenfell unit trusts.

"Our phones have been going all day," said Ms Janice Thompson, of Chelsea Financial Services in London. "Unfortunately, all we can tell them is that at the moment they can't do anything."

The suspension of dealings has cast doubt on transactions that were in the pipeline. Although advisers can return money to their investors if it has not yet been sent to Morgan Grenfell, there is little they can do about slow-moving transactions such as transfers between personal equity plans.

Although Morgan Grenfell has promised to make up any shortfall to investors, both they and their advisers remain uncertain about the precise details of what this compensation will entail.

Independent financial advisers have been responsible for steering into the Morgan Grenfell European funds over the last two years. They enjoy a certain amount of access to fund managers, but are almost as much in the dark about what is going on at Morgan Grenfell as the individual investor.

Mr Graham Kane, head of Morgan Grenfell's unit trusts business, faxed IFAs on Monday to tell them that dealings in the funds had been halted. The fax informed them that Mr Stuart Mitchell would be taking over as manager of the fund run by Mr Peter Young, who was suspended.

In telephone calls to IFAs, Morgan Grenfell executives have gone on to suggest that Mr Young had been suffering as a result of work pressure and problems at home.

But advisers are urging investors not to panic.

"The only advice we can give to our clients is: don't do anything at this stage. The comforting thing is that it is Morgan Grenfell. In the short term your money is secure," said Mr Ian Millward of Chase de

Mr Pascal Matic, partner in the Unitas investment firm, added that the ultimate backing of Deutsche Bank, Morgan Grenfell's parent, was a source of comfort.

"Obviously they are owned by Deutsche Bank, and I can't see Deutsche Bank letting anybody go short," he said.

In fact, confidence in the Morgan Grenfell investment team remains generally strong. Advisers say one of the selling points of the MG funds was that they were backed by a team of managers rather than by a single star performer.

"The reason we liked them is basically that they had excellent long-term performance over one, three, five or 10 years," said Ms Thompson of Chelsea Financial.

In the last year, private clients have increasingly sought to diversify their Pep holdings away from the UK, and Europe has been one of the most popular destinations. Morgan Grenfell promoted the European Growth fund as a Pep investment, and the fund was also

The funds continued to perform well when Mr John Armitage left two years ago and Mr Young took over. Now Mr Mitchell, who has previously run an offshore European fund, is stepping in. That may mean a change in investment style, but it need not damage performance, advisers said yesterday.

"If Eric Cantona left Manchester United, it would be a disappointment, but you wouldn't put money on United being relegated," said Mr Alan Durrant, investment manager at advisers Hargreaves Lansdown.

Although the performance of the MG European Growth fund has been poor in the last six months, most advisers recognise that the fund has had an aggressive investment approach, taking sizeable stakes in volatile stocks such as Nokia and British Biotech.

"We would not automatically advise clients to come out on the basis of six months of poor performance," said Mr Andrew Oliver of investment adviser Sedgwick Noble Lowndes.

asked Morgan Grenfell for an explanation of the funds' poor performance in recent months, and were told that the funds had been going through a "restocking" exercise, overhauling their portfolios.

A few advisers have also complained about shortcomings in the Morgan Grenfell back office. "We have been concerned about their administration, particularly on the Pep side," said Mr Matic of Unitas.

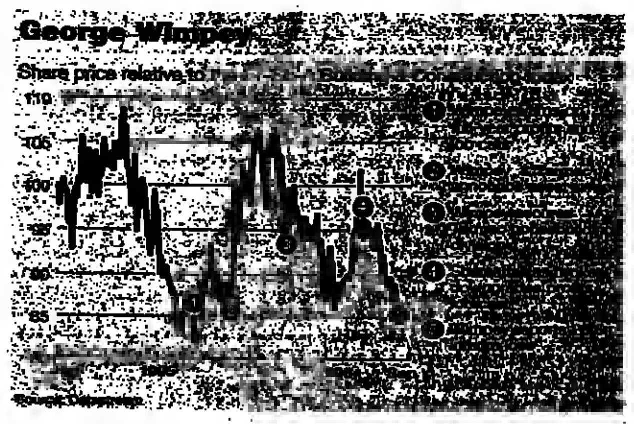
A deeper anxiety among IFAs, however, is that the episode, coming hot on the heels of official sanctions against the Jardine Fleming investment management group in Hong Kong, could tarnish the unit trust sector's reputation.

"I think the worry is that investors are going to lose confidence not just in Morgan Grenfell but in unit trust managers generally," said Mr Clive Scott-Hopkins of investment brokers Towry Law.

"Coming hard on the heels of Flemings, it's not good news. Two top names – one wonders who is

Wimpey tumbles £8.6m into the red

By Geoff Dyer



The difficulty of George Wimpey's task, following the March swap of its construction and and minerals businesses for Tarmac's house-building division, was emphasised yesterday when the UK's largest house-builder announced first-half pre-tax losses of £8.6m ($13.4m).

However, Wimpey expressed confidence in the new strategy and said this year's operating profits would be the highest of the decade.

But the upbeat comments failed to allay concerns in the City that the group's balance sheet is too stretched to finance its land-buying plans. The shares fell 5p to 129½p.

The results reflected £8.4m of losses (against £2.3m of profits) from the businesses transferred to Tarmac, while McLean Homes, contributed £10.6m to profits. Operating profits were £2.8m (£8.5m) and turnover from continuing business, was flat at £259.7m (£258.6m).

The shortfall included reduced profits from the rest of the group's operations to £500,000 (£6.2m), with competition leading to a sharp drop in profits from Wimpey Homes.

Higher borrowings caused the interest charge to jump to £11.4m (£7.5m) and the gearing ratio to rise from 38 per cent to 57 per cent. Mr Joe Dwyer, chairman, said the group had identified £148m of asset sales to finance its planned acquisitions of land.

Analysts expressed doubts about Wimpey's ability to finance the land purchases. "The strategy is flawed as the balance sheet is so precarious. They are using non-repeatable asset sales to fund the replacement of the landbank," said one analyst.

The group intends to maintain the Wimpey Homes portfolio at the same level and plans to double the spending on land at McLean Homes in the second half of the year.

Mr Dwyer said Wimpey Homes had been affected by heavy discounting and incentives, but that margins were improving in the UK and that sales levels were similar to 1995. Margins at McLean would rise by ending its policy discounting at the year-end.

There were signs of improvement in the second hand housing market in London and the south-east of England, however the market for new homes was less robust. "Price inflation is strong in parts, but feeble in general," said Mr Dwyer.

P&O criticised for sale of unit

By Ross Tieman

Peninsular & Oriental Steam Navigation yesterday sold the first company in its £1bn ($1.56bn) divestment programme – and was immediately criticised by the head of the former subsidiary for selling the wrong business.

Mr Howard Stapleton, managing director of P&O Oilfield Services, said that the company's outstanding profitability made it "probably one of the businesses they should not have sold".

But City and media censure of P&O's board, chaired by Lord Sterling, had put the transport, property and construction group under pressure to deliver a radical restructuring, he said. "P&O didn't really want to sell this business."

P&O Oilfield Services hires drilling and pipework handling equipment to North Sea rig operators. In 1995 it made pre-tax profits of £4m on sales of £12.7m and enjoyed a return on capital in excess of 30 per cent.

The business, to be renamed Premier Oilfield Services, is being bought for £37.5m by Royal Bank Development Capital. Its existing management will be retained and will participate in the purchase. P&O, a co-founder of Oilfield Services, has realised a £24.5m profit over book value.

The divestment programme, announced in March, is partly designed to fund heavy investment programmes in its core cruise shipping, ferries and container business. Property and investment sales of almost £250m have already been achieved.

Heating upturn at Blue Circle

By Simon London

The first fruits of restructuring its heating division helped Blue Circle Industries, the cement and building products group, to a 12 per cent increase in interim pre-tax profits.

The results came against a background of difficult trading conditions in the UK.

Mr Keith Orrell-Jones, chief executive, accompanied the results with the outline of a £500m ($780m) capital investment plan over the next five years. In addition to a previously announced cement works in Kent, the group planned to expand cement capacity in the US and Chile. He added that it was looking at possible acquisitions in Asia, South America and the US to use its balance sheet strength.

Net debt reduced from £36.4m to £18.5m, leaving gearing of 1.5 per cent.

On turnover 4 per cent higher at £874.4m, it made pre-tax profits of £116.3m (£104.1m) including £1.9m profits from property development (£200,000 loss).

Profits from heating improved from £100,000 to £9m, mainly due to a better performance in the UK. However, profits in France also advanced and losses in Germany were cut from £5.2m to £4.5m.

This year Blue Circle announced plans to cut up to 1,300 jobs as part of an overhaul of its European heating operations. The measures are expected to save about £9m this year and £25m in 1997.

In heavy building materials, dominated by cement, profits declined marginally. Strong market conditions in the US and Asia were offset by weak demand in the UK.

Brendan Corr

Lord Tugendhat (left), chairman, and Keith Orrell-Jones

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abbot Group ♦	6 mths to June 30	45.2	(2.95)	3.47♠	(0.821)	2.04†	(7.05L)	0.64	Nov 6	0.56	-	1.68⌶
Anglo Eastern	6 mths to June 30	5.9	(7.3)	3.5	(4.1)	5.1	(9.2)	-	-	-	-	3.4
Argent	6 mths to June 30	9.6	(7.4)	2.06	(1.15)	2.6	(1.7)	nil	-	nil	nil	nil
Blue Circle	6 mths to June 30	874.4	(839.9)	116.3	(104.1)	8.9	(8.4)	4.25	Nov 25	4	-	12.5
Cala ☆	Yr to June 30	91.9	(87.4)	4.21	(7)	6.7	(11.17)	2.2	Oct 25	2.1	3.4	3.2
Chime Comms	6 mths to June 30	15.5	(11.9)	1.4	(1.2)	1.6	(1.4)	0.55	Nov 19	0.46	-	1.42
Croda Intl	6 mths to June 30	229.6	(238.1)	22.5	(21.5)	11.5	(10.9)	3.45	Dec 2	3.25	-	6.35
Dixon Motors	6 mths to June 30	124.5	(55.9)	2.35	(1.27)	10.1†	(6.4)	2	Oct 11	1.675	-	5
Finlay (James) ☆	6 mths to June 30	86.2	(81.2)	4.91♠	(1♠)	2.8	(0.4)	1.5	Jan 6	1	-	3.15
Fulmar	6 mths to June 30	10.8	(9.84)	2.19	(1.83)	5.7†	(6)	1.9	Nov 1	-	-	-
Iceland Group	6 mths to June 29	681.3	(655.4)	29.8	(33.6)	7.06‡	(7.89)	1.8	Nov 18	1.65	-	5.25
IMI	6 mths to June 30	690	(669)	138♥	(49)	31.1	(9.5)	5	Oct 14	4.6	-	11.5
Linx Printing	Yr to June 30	17.3	(15.3)	1.79	(1.42)	6	(6.5)	1.9	Nov 29	1.4	2.8	2.1
Macro 4	Yr to June 30	25.3	(25)	12.1	(11.8)	37.5	(35.2)	15	Nov 4	13.4	24.3	22
Metsec	6 mths to June 30	30.1	(34)	1.55	(1.3)	6.49	(5.49)	1.2	Dec 3	1.1	-	3.3
Nottingham Group	6 mths to June 30	27.9	(23.5)	3.56	(3.57)	4.56	(4.55)	1.84	Oct 16	1.84	-	5.75
Ocean Group	6 mths to June 30	550	(536.6)	27	(25.2♥)	12.1	(11.6)	5	Nov 1	4.71	-	14.33
Peek	6 mths to June 30	71.5	(64.6)	3.44♠	(7.58♥)	1.6	(5.3)	1.05	Jan 3	1.05	-	3.4
Pentland Group ☆	6 mths to June 30	412.3	(331.5)	11.5	(14.1)	1.91	(2.52)	1.4	Nov 1	1.35	-	3.3
Ropner	6 mths to June 30	13.4	(12.9)	1.89♠	(2.13)	4.8	(5.5)	3.5	Oct 9	3.5	-	6.25
Trocadero	6 mths to June 30	4.91	(4.19)	0.995♥	(1.01)	0.16†	(0.34)	-	-	-	-	-
Wimpey (George)	6 mths to June 30	588.6	(737.7)	8.6L♥	(1)	1.68L	(0.08L)	2	Oct 31	2	-	5.5
Wood (Arthur)	6 mths to June 30	2.45	(1.98)	0.209	(0.084)	7.57	(3.07)	2	Oct 25	-	-	6.5
Yorks-Tyne Tees	6 mths to June 30	136.1	(129.7)	13.3	(7.39)	17.2†	(9.4)	6.8	-	3.7	-	14

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh Income □	3 mths to July 31	40.4	(46.1)	0.117	(0.558)	0.78	(3.72)	1	Oct 17	1	-	4
Falcrum	3 mths to July 31	-	(-)	-	(-)	-	(-)	1.4	Sep 30	1.4	-	10.25
Johnson Fry Utils	Yr to July 31	93.27	(97.58)	2.58	(2.39)	8.49	(7.84)	2.6	Oct 15	2.5	7.94	7.66
Shires Income	3 mths to June 30	-	(-)	-	(-)	-	(-)	4.1	Oct 31	4.1	-	16.8
TR European ☆	Year to June 30	264.2	(193.1)	1.79	(1.08)	2.97	(1.75)	1.8	Nov 1	1.7	1.8	1.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ♦Comparatives for six months to March 31 1995. ⌶For 15 months. ☆Comparatives restated. □Comparatives for year to April 30 1996. ‡On decreased share capital.

Royal Sun to sell SA stake

By Ralph Atkins

Royal & Sun Alliance is seeking buyers for its 80 per cent stake in Protea Assurance, the South African insurer, in the latest shake-out following the creation of the UK-based composite insurance group earlier this year.

The stake in Protea, which was part of the Sun Alliance insurance group, has a market value of about $125m. Sun Alliance merged in July with Royal Insurance, which had a 48 per cent interest in another South African insurer, Mutual & Federal.

Royal Sun decided to sell the Protea stake because the company was seen as a direct rival to Mutual & Federal. According to a statement from Protea, Royal Sun has "invited selected organisations to make firm offers for the group by September 30".

News of the planned disposal comes as Royal Sun prepares to disclose tomorrow combined profit figures for the six months to June 30. Forecasts range from £340m to £430m.

IMI at £138m and seeks acquisitions

By Richard Wolffe

IMI, the international engineering group, said yesterday it was searching for acquisitions after reporting more than doubled pre-tax profits in the six months to June 30.

Mr Gary Allen, chief executive, said the company was "in an acquisitive frame of mind" and was particularly looking to expand its fluid power and valves interests in North America and continental Europe.

IMI's acquisition strategy has been lifted by the sale of its titanium interests in April, which contributed £70m to interim pre-tax profits and left the company almost ungeared.

Pre-tax profits rose from £49m to £138m ($215m) on sales up from £669m to £690m.

The results were also lifted by the £134m purchase of Heimeier, Germany's largest producer of radiator valves, which added £8.1m to operating profits.

IMI said there was little sign of an early recovery in continental demand for its building products, but it had invested more than £2m in expanding Heimeier's sales operations in new markets and extending its range.

Elsewhere in the building products division, the company said UK demand for copper tube and fittings was "slightly ahead" of last year. However, sales from continuing operations remained flat at £205m, while operating profit declined from £16.9m to £15.6m. Lower copper prices led to a £500,000 loss in the value of unsold copper stocks.

In contrast, IMI's drinks dispensing division reported a 3 per cent rise in profits to £19.6m on sales of £164m (£158m) as demand in the US and south-east Asia picked up. In fluid power, profits grew by 8 per cent to £16.3m as the division lifted market share in the UK and increased sales in Australia.

In special engineering, profits rose 12 per cent to £6.5m.

INTERNATIONAL CAPITAL MARKETS

German bunds outperform US Treasuries

By Samer Iskandar in London and Lisa Bransten in New York

Although Treasuries were the main source of inspiration for European bonds yesterday, German bunds again outperformed the US market. The 10-year yield spread of Treasuries over bunds widened to 69 points, the highest level this year, from 58 basis points last Thursday and 45 e week earlier.

Traders, howaver, felt Treasuries' underperformance was overdone. "It will be tough to sustain s spread in the high 60s", said a technical analyst in London.

Industrial production data for July confirmed that the German economy had grown modestly for the fifth month running and reinforced expectations that economic activity would continue to grow at a moderate pace in the second half.

■ Interest rate concerns sent US Treasury prices lower in early trading but by midday prices had recovered from their session lows as data on manufacturing activity proved not nearly as strong as traders had feared.

In early trading, tba benchmark 30-year Treasury was off as much as ¾ to yield nearly 7.2 per cent, amid fears of strength in the National Association of Purchasing Management's index of business activity.

Bonds skidded on Friday after the Chicago purchasing managers index – which is viewed as an indicator of the national number – jumped to 60 in August.

The NAPM figure was comparatively tame at 52.6, up from 50.2 in July, and the long end bounced sharply highar in response. Near midday, the long bond was unchanged at 95⅔ to yield 7.107 per cant and the December 30-year bond future was steady at 106⅔.

Particularly reassuring to tha market was that while both prices paid and the employment indices released by the NAPM rose, they remained below 50.

GOVERNMENT BONDS

At the short end, however, prices remained lower amid rising fears that tha Federal Reserve might raise interest rates aggressively, perhaps befora the September 24 Open Market Committee meeting. The two-year note was $\frac{1}{32}$ lower at 99⅔, yielding 6.363 per cent.

The yield curve that maps the spread between two-year notes and the long bond flattened by 5 basis points to 74 points as the long end of the market ontperformed.

Mr Josepb Liro of CIBC Wood Gundy in New York warned against too positive a reaction to the NAPM figure, even though it was not as strong as feared.

"The NAPM release was a relief since it was not stronger. However, it is not a weak number," he said. "We shall look to further NAPM data, which we believe will support atrength through the second half of the year," he added.

■ UK gilts ended sligbtly lower while traders awaited today's meeting between the chancellor of the exchequer and tha governor of the Bank of England.

Liffe's September long gilt future closed $\frac{1}{32}$ lower at 106⅔.

A vast majority of economists did not expect any change in monetary policy, although some analysts are still expecting one more rate cut later this year or early in 1997.

Mr Simon Briscoe, chief UK economist at Nikko Europe, said: "The market would be disconcerted by a cut in the base rate [this week]. But gilts would benefit from a cut in November, if it comes on the back of a tight budget."

Meanwhile, he added, "the tone in the market is quite good". With the US market expected to trade nervously ahead of Friday's release of employment data for August, he expects gilts to outperform Treasuries.

The 10-year yield spread, currently at 99 basis points, could tighten by up to 10 basis points this week and more than 50 basis points in coming months, he said.

■ French bonds ended higher with help from recovering Treasuries, but prospects for the near future were clouded by an unstable social climate and uncertainty ahead of today'e release of GDP data for the second quarter.

Matif's September notional future closed unchanged at 123.16, while in the cash market the 10-year benchmark OAT rose by 0.06 to 105.72, narrowing its yield spread over the equivalent bund by 2 basis points to 3 points. The announcement of a strike on September 30 by five teachers' unions, made late in the day, failed to affect the bond market.

Banks assume market risk in UK power deal

By Richard Lapper, Capital Markets Editor

Syndication of one of the first UK power project loans under the terms of which banks will assume an element of market risk stemming from possible fluctuations in electricity prices will begin today.

SYNDICATED LOANS

The deal is also the first independent power plant financing in the UK since the Humber Power project nearly two years ago.

Credit Suisse is sole arranger of the £358m loan for Rocksavage Power, which is building a 750MW natural gas fired power plant at Runcorn in Cheshire.

Rocksavage, sponsored by Intergen, the joint venture between PG&E and Bechtel of the US, will sell power from the project to both ICI and a large regional electricity company.

ICI will buy 300MW while the unnamed rec is contracting to buy 400MW through so-called "off-take contracts".

That will leave Rocksavage to sell an additional 50MW directly to tha electricity pool of England and Wales. But sales would not be made if electricity pool prices fall below a certain level, reducing the overall profitability of the plant.

In addition, the rec deal has been negotiated through what is known as a "shoulder" or "peaking" contract, obliging the rec to buy power from Rocksavage on a selected basis. This also introduces a small element of market risk into the deal.

The loan package consists of two tranches: a three-year £70m equity bridge loan – which is not being syndicated – and e 17-year £288m non-recourse project loan, of which £283m is to be syndicated.

Pricing on the non-recourse facility falls from 117.5 basis points in the construction phase of the project to 112.5 basis points from years one to five. It then rises to 120 basis points between years six and eight and 130 basis points in years nine to 15.

ABN Amro and NatWest Markets have joined Credit Suisse as underwriters. About 20 banks will be selected to syndicate the facility, with each taking either £12m or £17.5m.

Banks lending money to several US power projects have assumed exposure to a possible fall in electricity prices and the trend is likely to develop in the UK, with competition in the market still making it a good time for project sponsors to raise money.

BP Chemicnls and Entergy, the US power developer, are reported to be planning to ask bankers to finance a new 1,000MW plus facility which would initially sell some 900MW of electricity directly to the pool without any off-take contracts.

Bankers suggest that the cover and debt equity ratios would need to be adapted to reflect the increased risk.

In most power plant financings somc 20 per cent of funds come from equity, with a further 80 per cent from debt. Without an off-take contract, bankers might demand that up to half the funds are in the form of equity.

IDB $500m offer taps strong demand for five-year maturity

By Conner Middelmann

Yesterday's session spelled the end of the summer lull in the eurobond market with eeveral large dollar and D-Mark deals launched despite volatility in the government bond markets.

The largest deal of the day, $500m of five-year bonds for the Inter-American Development Bank, was first off the mark. Surprising many participants in a volatile market ahead of widely-watched US economic data, dealers said the issue had a slow start, although it picked up as the session went on.

Leed manager Goldman Sachs said it had pinpointed strong demand for five-year bonds from investors moving away from the long end of tha yield curve into more defensive positions amid renewed interest-rate uncertainty. Pricing of 8 basis points over Treasuries was deemed to be tight but fair.

Hard on the heels of the IDB, Deutsche Ausgleichsbank, the government-owned financing institution for small and medium-sized enterprises, made its successful dollar debut vie Deutsche Morgan Grenfell.

INTERNATIONAL BONDS

Its $300m of five-year bonds were priced at a spread of 17 basis points over Treasuries, and later narrowed to 16 basis points.

Another success was the long-awaited $200m 10-year offering for Kansai International Airport, the borrower's first dollar deal since 1992 and only the third Japanese government-backed bond in the current fiscal year. Priced at 27 basis points over Treasuries, the spread narrowed to 26 basis points, with the issue being well oversubscribed, lead manager IBJ said.

The D-Mark sector got its share of the action, with Argentina setting e naw maturity milestone: the first 20-year D-Mark bond for an emerging-market borrower.

It leunched DM375m of 20-year and DM375m of seven-year bonds. Despite Argentina's deteriorating fiscal situation, lead manager CSFB reported good demand, especially from German investors. A CSFB official said the long-dated tranche appealed to institutions such as life insurers and pension funds.

Meanwhile, Bayerische Vereinsbank issued e DM1bn Pfandbrief at 30 basis points over bunds. Underwritten by a consortium of five banks including CDC of France, Goldman Sachs and Merrill Lynch, the issue saw substantial international placement, dealers said.

● Standard & Poor's yesterday raised its credit rating outlook for Mexico from negative to stable and affirmed its BB foreign-currency debt rating, reflecting the country's reduced vulnerability to political and external shocks and the recovery of macroeconomic stability.

Moody's downgraded Thailand'e sovereign ceiling ratings for bank deposits and other short-term obligations to Prime-2 from Prime-1, reflecting increased vulnerability to financial shock through the balance of payments after an accumulation of short-term external debt.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Inter-American Dev Bank	500	6.875	99.655R	Sep 2001	0.25R	+8(6½%-01)	Goldman Sachs Intl
Deutsche Ausgleichsbank	300	7.00	99.689R	Sep 2001	0.25R	+17(6½%-01)	Deutsche/Lehman Brothers
Kansai International Airport	200	7.25	99.23R	Oct 2006	0.325R	+27(7%-06)	IBJ International
ABN Amro Australia(s)	200	6.50	99.915R	Dec 1998	1.125R	+8(6¼%-98)	ABN Amro Hoare Govett
Chugai Pharmaceutical(s)ф	50	3.375	100.00	Sep 2000	2.50	-	Nomura International
■ D-MARKS							
Bayerische Vereinsbank(b)	1bn	5.25	98.97R	Sep 2001	0.25R	+30(5%-01)	(b1)
Republic of Argentina(c)	375	9.00	99.75R	Sep 2003	7.125R	-	CSFB-Effectenbank
Republic of Argentina(d)	375	12.00	99.75R	Sep 2016	1.625R	-	CSFB-Effectenbank
■ SWISS FRANCS							
Vorarlberger L-& Hypok	100	3.50	101.25	Oct 2000	1.375	-	UBS
■ GUILDERS							
SNG(s)	500	5.25	99.48R	Dec 2001	0.25R	+5(5¾%-01)	SBC Warburg
■ AUSTRALIAN DOLLARS							
State Bank of NSW(s)‡	210	(e)	99.939	Sep 2004	0.30	-	Deutsche Morgan Grenfell
■ SWEDISH KRONOR							
Crédit Local de France	500	8.375	99.888	Oct 2006	undisc	-	Enskilda

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. фWith equity warrants. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fixing: 10/9/96. b) Offentliche Pfandbriefe. b1) Joint book-runners: Bayerische Vereinsbank/CDC/Dresdner/Goldman/Merrill. c) Callable on 19/9/01 & on 19/9/02 at par. d) Callable on 19/9/06 & on 19/9/11 at par. e) 3-mth bank bills +16bp. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	6.750	11/06	89.5970	-1.080	8.28	8.14	8.64
Austria	6.250	05/06	98.2900	+0.030	6.39	6.36	6.43
Belgium	7.000	05/06	102.4300	-0.070	6.64	6.63	6.73
Canada *	7.000	12/06	96.3300	-0.530	7.52	7.36	7.64
Denmark	8.000	03/06	104.0000	-0.220	7.39	7.31	7.31
France BTAN	5.500	10/01	99.5500	-0.040	5.60	5.64	5.36
OAT	7.250	04/06	105.7200	+0.060	6.43	6.42	6.35
Germany Bund	6.250	04/06	98.2200	-0.070	6.40	6.38	6.39
Ireland	8.000	08/06	102.9000	-0.020	7.63	7.59	7.59
Italy	9.500	02/06	100.6300	-0.130	9.36†	9.38	9.17
Japan No 140	6.600	06/01	120.0335	-0.260	1.90	2.11	2.31
No 182	3.000	09/05	100.0355	-0.320	3.00	3.15	3.30
Netherlands	8.500	06/06	115.2900	-0.100	6.34	6.34	6.36
Portugal	11.875	02/05	118.7500	-0.140	8.64	8.61	8.58
Spain	8.800	04/06	99.5100	-0.110	8.85	8.84	8.86
Sweden	6.000	02/05	86.9911	-0.320	8.19	8.05	8.22
UK Gilts	8.000	12/00	103-10	-5/32	7.07	7.04	7.15
	7.500	12/06	97-04	-6/32	7.91	7.86	7.86
	9.000	10/08	107-12	-6/32	8.03	8.03	8.00
US Treasury *	7.000	07/06	100-07	-7/32	6.96	6.78	6.76
	6.750	08/26	95-12	-4/32	7.13	6.97	6.97
ECU (French Govt)	7.500	04/05	104.2300	-0.120	6.83	6.83	6.78

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest / Treasury Bills and Bond Yields: [illegible]

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	123.04	123.18	-	123.20	122.86	127,567	160,034
Dec	121.66	121.78	-	121.78	121.42	34,083	57,406
Mar	121.52	121.66	+0.04	121.64	121.40	1,510	10,761

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
120	-	-	-	0.16	0.40	0.58
121	1.04	-	1.50	0.34	0.66	0.86
122	0.45	-	1.02	0.70	-	-
123	0.10	0.37	0.61	1.42	-	-
124	0.02	0.14	0.33	-	-	-

Est. vol. total, Calls 2,658 Puts 3,434. Previous day's open int., Calls [illegible] Puts [illegible].

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.10	97.20	-0.07	97.24	96.86	154128	103113
Dec	96.12	96.24	-0.05	96.26	95.90	122660	117477

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
9600	0.56	0.84	1.06	1.02	0.32	0.60	0.82	1.73
9650	0.30	0.58	0.79	0.81	0.56	0.84	1.05	2.02
9700	0.14	0.36	0.56	0.65	0.90	1.14	1.34	2.36

Est. vol. total, Calls 16164 Puts 14622. Previous day's open int., Calls 107974 Puts 107510

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	115.57	115.86	-0.05	115.78	115.28	45323	28251
Dec	114.90	114.91	-0.10	115.09	114.51	41166	37171

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11450	1.87	2.23	1.46	2.32
11500	1.59	2.00	1.64	2.59
11550	1.27	1.78	1.95	2.87

Est. vol. total, Calls 5280 Puts 5591. Previous day's open int., Calls 49052 Puts 72135

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	100.87	100.89	-0.11	100.92	100.47	69,927	54,353
Dec	100.36	100.37	-0.12	100.40	99.89	5,766	13,247

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	107-00	106-30	-0-07	107-03	106-16	52616	68448
Dec	106-09	106-06	-0-09	106-12	105-26	35738	99139

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
106	0-46	1-09	1-31	1-48	0-54	0-61	1-19	2-16
107	0-19	0-43	1-00	1-20	1-07	1-31	1-52	2-48
108	0-05	0-23	0-40	0-62	1-58	2-11	2-28	3-26

Est. vol. total, Calls 1818 Puts 448. Previous day's open int., Calls 13782 Puts 13000

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	91.88	91.86	-0.04	91.88	91.54	923	7,099
Dec	89.98	90.06	-0.04	89.98	89.88	100	1,430

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	107-06	106-19	-0-24	107-16	106-16	65,919	207,430
Dec	106-23	106-02	-0-23	107-01	106-02	317,659	225,267
Mar	105-27	105-23	-0-21	106-03	105-23	1,080	8,728

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Sep	122.10	-	-	122.20	122.00	1137	n/a
Dec	120.36	-	-	120.49	120.27	4569	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Sep 3	Day's change %	Mon Sep 2	Accrued interest	xd adj. ytd		Low coupon yield Sep 3	Sep 2	Yr. ago	Medium coupon yield Sep 3	Sep 2	Yr. ago	High coupon yield Sep 3	Sep 2	Yr. ago
1 Up to 5 years (22)	121.70	-0.03	121.74	2.16	6.91	5 yrs	7.20	7.17	7.49	7.27	7.26	7.51	7.35	7.31	7.59
2 5-15 years (20)	147.29	-0.12	147.47	2.79	7.20	15 yrs	8.15	8.14	8.03	8.17	8.14	8.06	8.19	8.16	8.16
3 Over 15 years (8)	159.91	-0.27	160.34	2.57	8.84	20 yrs	8.27	8.25	8.07	8.26	8.23	8.10	8.28	8.25	8.18
4 Irredeemables (6)	183.87	-0.17	184.19	3.82	7.36	Irred.†	8.31	8.29	8.16						
5 All stocks (56)	141.94	-0.11	142.10	2.56	7.45										

Index-linked	Tue Sep 3	Day's change %	Mon Sep 2	Accrued interest	xd adj. ytd		Inflation 5% Sep 3	Sep 2	Yr. ago	Inflation 10% Sep 3	Sep 2	Yr. ago
6 Up to 5 years (1)	200.16	-0.02	200.14	3.17	4.43	Up to 5 yrs	2.12	2.12	2.73	0.48	0.46	0.96
7 Over 5 years (11)	186.33	-0.02	186.36	1.15	3.43	Over 5 yrs	3.73	3.72	3.53	3.52	3.51	3.34
8 All stocks (12)	188.46	-0.02	188.49	1.19	3.44							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 3	Sep 2	Aug 30	Aug 29	Aug 28	Yr ago	High*	Low*
Govt. Secs. (UK)	92.63	92.90	92.73	92.83	92.79	94.11	96.34	91.59
Fixed Interest	113.05	113.12	113.33	113.36	113.34	112.72	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 2	Aug 30	Aug 29	Aug 28	Aug 27
Gilt Edged bargains	80.0	77.2	96.3	109.8	73.7
5-day average	83.4	86.9	87.1	85.9	79.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on September 3

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

[illegible]

* 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

Prospective real redemption rate on projected inflation of (b) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for December 1995: 150.7 and for July 1996: 152.4.

مكتبة من الأرشيف

CURRENCIES AND MONEY

MARKETS REPORT

Dollar slide helps boost sterling performance

By Richard Adams

Strong demand for sterling from institutional investors in the foreign exchange market yesterday sent the pound higher, while the major currencies stayed becalmed.

The pound raced ahead against the US dollar, the yen and the D-Mark, after the dollar stalled following Monday's rise on the back of oil price increases and political tension.

By the close of the market in London, the pound had risen by almost a pfennig against the D-Mark, to DM2.3274 from DM2.3188 at the previous day's close.

Against the dollar, sterling rose to $1.5679 from $1.5595, and against the yen it went up to Y171.356, from Y170.243. Sterling's trade-weighted index closed at 85.8, a rise of 0.8 since last week.

Sterling's strength could be a factor in today's meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England.

The dollar briefly continued to rise, after news of US action against Iraq, but it quickly fell back to its earlier levels.

The dollar closed down against the D-Mark, at DM1.4844 from DM1.4869. It was slightly stronger against the yen, ending at Y109.290, from Y109.165.

■ Dealers in the US dollar have been frustrated by the dollar's lack of ability to break out of its current trading ranges.

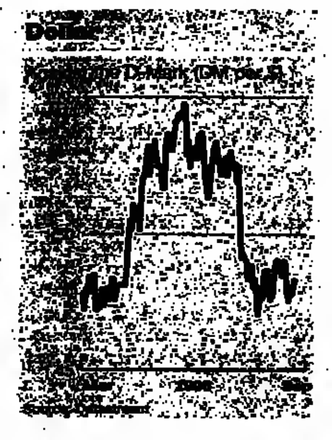
Despite good news about the economy's growth, without the appearance of inflationary pressures, the dollar has remained range-bound.

But Mr Robin Aspinall, chief economist for Europe at National Australia Bank in London, said that international capital flows were running against the dollar.

In Mr Aspinall's view, buying by portfolio investors that were previously underweight in the US dollar has now stopped, as has buying by the Bank of Japan. That combination has left the dollar with little direction.

With the election looming, Mr Aspinall predicts that Mr Alan Greenspan, chairman of the Federal Reserve, will be wary of raising interest rates soon. One reason for his reluctance will be the current level of Wall Street equity prices, which look vulnerable to a fall.

"The Federal Reserve dare not risk being blamed. The risk of waiting three to six months [to raise rates] is very small, compared with the risk of precipitating bursting the bubble," Mr Aspinall said.



■ The narrow trading range between the D-Mark and the dollar has benefited sterling this week. Traders favour the pound over other European currencies for two reasons. They think it will avoid exchange rate turbulence of European currencies involved with monetary union, while its healthy economic fundamentals give it an edge over its European partners.

Mr Tony Norfield, treasury economist at ABN Amro in London, said that the rise in the pound's trade-weighted index this week could foreshadow an interest rate cut.

Before the last rate cut, the pound rose to 86.4 against the trade-weighted basket, which contains the currencies of the UK's main trading partners. With the index at 85.8, Mr Norfield said the pound's strength could indicate a cut.

"I think it's possible that further pound strength might be a factor in a base rate cut," he said.

■ Global investor portfolios shifted from a net underweight to a net overweight position in D-Marks, Dutch guilders and Swiss francs in the three months to August, according to the latest survey of international fund managers by Merrill Lynch.

The quarterly survey showed that the net exposure index, compiled from the returns of 78 institutional fund managers from the US, Europe and Japan, rose to 55 in August for the three European currencies, from 44 in May. An index reading of 50 is neutral.

Net-exposure to the dollar, meantime, remained overweight but dropped 6.5 points to 60.25 during the three months to its lowest level since May 1995. It was the biggest quarterly decline in dollar exposure since early 1993.

■ Pound in New York

Sep 3	Latest	Prev. close
£ spot	1.5675	1.5615
1 mth	1.5671	1.5611
3 mth	1.5672	1.5610
1 yr	1.5720	1.5646

■ OTHER CURRENCIES

Sep 3	£	$
Czech Rp	41.2036 - 41.2615	26.2880 - 26.3080
Hungary	237.242 - 237.471	151.380 - 151.410
Iran	4705.20 - 4702.20	3000.00 - 3000.00
Kuwait	0.4691 - 0.4702	0.2993 - 0.2998
Poland	4.3056 - 4.3100	2.7470 - 2.7480
Russia	8410.67 - 8420.74	5368.00 - 5369.00
U.A.E.	5.7563 - 5.7607	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF)

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.65	95.65	-0.01	95.65	95.63	1125	8762
Dec	95.64	95.64	-0.02	95.65	95.61	714	6879
Mar	95.53	95.54	-0.02	95.54	95.53	31	3141
Jun	95.35	95.36	-0.01	95.36	95.35	35	2848

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES AND AGRICULTURE

Real price of gold seen at $580 by 2010

By Kenneth Gooding, Mining Correspondent

There is a 60 per cent probability that the real price of gold, measured in 1995 US dollars, will increase by nearly 3 per cent a year in the period to 2010, according to a new report from the Economist Intelligence Unit.

This would take gold's price to $580 e troy ounce between 2006 and 2010.

However, this is only the "central scenario" in the report's examination of the global gold market. Two other ecenarios are envisaged. One postulates zero annual growth in the real price of gold. This has a 15 per cent probability, according to the EIU, and would leave the gold price at $462 an ounce in 2010. The third scenario looks at a 4 per cent growth in the annual gold price, a 25 per cent probability says the EIU, taking it to $860 by 2010.

In its central scenario, the report euggests the gold price will rise in two steps. The first, in 1996-97, is in response to retrenchment in South Africa.

The anthors, Mr Alan Mackie, an economist, and Mr James Regan, e mine surveyor, point out that South African production is falling as miners must go deeper to find enough gold. This is pushing up production costs. "It would take a price of at least $500 an ounce to make it worthwhile to mine the bulk of South Africa'e remaining gold and costs are rising so fast in many mines that within a decade $600 (at 1995 prices) would be needed," they add.

The second step up in prices in the report'e central scenario would occur et the end of the five-year period to 2005 when existing supplies of gold – viable at $490 an ounce average price – had been mined and the price would have to rise to $600 to unlock new South African production.

On the demand side, the central ecenario sees demand from the Far East, "the bedrock of the price recovery", being sustained. The EIU suggests demand for physical gold will rise at 1.5 per cent a year.

The 140-page report says that "the fundamentals of eupply and demand are going to become much more prominent in the 15 years 1996-2010. As fresh supplies of gold become more restricted, the level of demand will be the chief determinant of price.

"Western jewellery consumption will be an important driver of demand, but the principal driver will be the value the peasant constituencies of developing countries in the Far East, India and the Pacific Rim place on gold compared with paper money. Eetablishing at what price the souk [the informal market in gold and other precious metals in the Middle East] ceases to buy gold is an inexact science; trying to track at what price the souk become a net seller of gold is uncharted territory. Other investore will take their cue from the souk."

If the central scenario proves accurate, the EIU believes that gold in the medium term will be able to match returns on bonds and will attract investment buying at certain price levels.

"If inflation shonld become e major concern, particularly in the newly industrialised countries of the Far East, which will be setting the pace for industrial development in the new millennium, we could see a revival of speculative interest in gold."

On the question of whether there will be enough gold to meet future demand, the report points out that today's global proven reserves that can be mined at present prices totals 18,700. But only 8,000 to 8,500 tonnes would be available to the market during the 15 years of the forecast period. There is another 5,000 tonnes of gold that central banks and other official institutions might, in theory, be prepared to sell to plug the supply gap.

That implies a totel of 13,500-14,000 tonnes of available gold. The authors state: "This is barely enough to cover four years of current physical demand, less recycled gold. Clearly the market is relying heavily on the souk and bar hoarders to disgorge significant amounts of gold. But will they do so at current prices? All the evidence suggests that they will not. In which case something else will have to give, and we believe it will be the price".

Gold to 2010: What will drive the price? £345 or $545 from the EIU, 15 Regent Street, London, SW1Y 4LR, UK.

SUPPLY/DEMAND SCENARIOS (tonnes)

	1996-2000	2001-05	2006-10
Scenario 1 (60% probability)			
Supply	14,280	14,420	15,103
Demand	17,417	17,668	17,298
Deficit	3,137	3,248	2,195
Price*	440	490	580
Scenario 2 (25% probability)			
Supply	16,340	17,980	18,725
Demand	17,226	18,772	20,004
Deficit	886	792	1,279
Price*	588	704	860
Scenario 3 (15% probability)			
Supply	14,280	14,016	13,700
Demand	15,967	14,450	12,924
Deficit (surplus)	1,687	434	(776)
Price*	448	436	462

*Source: EIU. *In constant 1995 US$*

Tajikistan aluminium smelter denies Russian report of shutdown

A senior official at Tajikistan's Tursunzade aluminium smelter yesterday denied that the plant had been forced to close down as reported last month by the Russian Interfax news agency, reports Reuters from Tursunzade.

Mr Sadriddin Sharipov, acting chief engineer at the smelter, said the plant had had problems with supplies of raw materials last month and that some workers had not shown up for work, but there had been no total shutdown.

Nevertheless, he said the forecast of output at the plant this year had been cut from a targeted 240,000 tonnes. "In 1996, we will produce more than 200,000 tonnes of primary aluminium," Mr Sharpov said, but he added that output would definitely not reach 1995's level of 236,500 tonnes.

Two of the plant's 12 smelting units were shut down in March and Mr Abbas Radzhabov, beed of the government's industry department, said Tursunzade was working at only 45 per cent of its 300,000-tonnes-a-year capacity.

Mr Sharipov said the smelter's rew materials reserves were low – less than a month's supply compared with an everage six weeks – and electricity supply problems could appear this winter after the neighbouring Central Asian state of Uzbekistan pulled out of an electricity barter arrangement with Tajikistan.

Tursunzade, about 50km west of the Tajik capital Dushanbe, owed creditors more than $100m, he said.

Plant officials had presented a two-stage privatisation plan for the smelter for the consideration of the Tajik government, Mr Sharipov said.

Mr Nikolai Doreshev, head of Tajikistan's foreign economic relations department, said the smelter was involved in a $50m project to reconstruct a unit for enriching anodes. It planned to complete the reconstruction, begun last year, in three or four years, but funding problems could push back the date.

Mr Sharipov also said the plant had invited several foreign firms to Tursunzade to discuse reconstruction of two units but that talks had been inconclusive.

NZ wine may flow too freely over next two years

By Terry Hall in Wellington

The New Zealand wine industry faces overproduction problems over the next two years as new vineyards reach maturity, Wine Institute chairman Mr John Buck says in the annual report.

Encouraged by booming export sales, the producing vineyard area is expected to rise from 6,700 hectares this year to 8,293 hectares in 1998. Mr Buck says however that concern at the trend is leading to a fall in plantings this year. There hed also been anecdotal reports of vines being extracted, which could lead to a fall in the areas planted by the year 2000.

"The increase in the mature vineyard area can reasonably be expected to produce over 90,000 tonnes of grapes in every "average" climatic year from 1998 on," he says. This would be a 55 per cent increase on the 58,000 tonnes produced in the year to June 30.

Mr Buck believes that the increase in the vineyard areas will ensure future export production will not be hampered as at present by grape shortages and will allow many New Zealand vineyards to build sustainable positions for their brands.

The annual report says that New Zealand wine exports are expected to rise from the current NZ$60.3m (US$40m) to NZ$125m by the year 2000.

In the past year sales of New Zealand wine are estimated to have been 43.5m litres, a 12 per cent rise on 1995. While exports rose by 41 per cent, domestic sales, under the impact of two rises in duties, rose "sluggishly" to 32.9m litres.

Mr Buck eays that the industry appears to have a bright future provided the challenge of increased production is properly addressed. This will, he says, require a greater sales effort, with more investment in processing, research and development and market development work.

He warns that some industry participants will not measure up, but is confident that many will prosper during this growth phase.

MARKET REPORT

LME copper prices challenge resistance

COPPER prices pushed higher yesterday afternoon on the London Metal Exchange to challenge the upper end of its new chart range.

Traders said copper again dominated with wide price movements seen as the market geared up for today's September option declarations. A brief spell of consolidation in mid-afternoon was ended by e flurry of short-covering, although solid resistance was encountered et $2,050 e tonne for three months delivery.

"There is key support at $1,970 – the break-out point – and resistance at $2,045/2,050," said one trader. "We've tested both of those today."

Last business was at $2,040 a tonne, up $14.

Movements were less extreme in the other base metals, with ALUMINIUM mostly content to hold above $1,500 a tonne for three months delivery. Traders expect the market to stay within e broader $1,470/1,530 band. The final kerb trade yesterday was at $1,505, a $5 loss.

NICKEL prices moved higher during the afternoon rings, with the triggering of stop-loss buying orders above $7,500 a tonne carrying the market up to $7,600 at one point. The last trade was at $7,550, a $135 gain on the day.

Traders eaid the market was still trying to consolidate after recent wide price moves, with some support expected around yesterday's low of $7,400 a tonne. However, thin conditions meant price movements would remain volatile, they said.

The LEAD market tried to push higher in the afternoon but the three months price faltered et $820 a tonne. However, prices still closed with modest gains and final business was at $819, up $4.

At the London Commodity Exchange COCOA futures sank, under pressure from trade profit-taking and speculative selling, to six-month lows. But traders said the market was poised for an upward correction after finishing lower for seven or eight successive sessions. "The selling seems to be a bit overdone," said one.

The December contract fell to £955 a tonne before settling £10 down at £957.

Robusta COFFEE futures extended losses to touch fresh three-week lows after New York's arabica market re-opened sharply lower following e build-up in long positions by US investment funds, traders said. At the close the benchmark November delivery contract was down $57 at $1,565 a tonne, just $1 off the low.

Compiled from Reuters

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	+3,850	to 936,300
Aluminium alloy	+220	to 86,300
Copper	+500	to 275,775
Lead	–150	to 110,875
Nickel	+414	to 38,978
Zinc	–850	to 562,475
Tin	–85	to 10,640

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1471.5-72.5	1505.5-07
Previous	1475-76	1510-10.5
High/low	1473.5	1510/1501
AM Official	1473-73.5	1506-06.5
Kerb close		1504-05
Open int.	211,737	
Total daily turnover	75,170	

■ ALUMINIUM ALLOY ($ per tonne) [illegible]

■ LEAD ($ per tonne) [illegible]

■ NICKEL ($ per tonne) [illegible]

■ TIN ($ per tonne) [illegible]

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate: 1.5610 [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild) [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	386.1	–0.8	386.2	386.2	2	2
Oct	387.5	–0.8	389.0	387.4	839	10,484
[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	106.75	–1.00	107.60	107.60	5	178
Nov	108.45	–0.65	109.10	108.30	99	2,970
[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel) [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) [illegible]

■ BARLEY LCE (£ per tonne) [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

■ POTATOES LCE (£/tonne) [illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point) [illegible]

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	928	–10	941	931	115	8,462
Dec	958	–9	967	955	3,891	37,858
[illegible]						

■ COCOA CSCE (10 tonnes; $/tonnes) [illegible]

■ COCOA (ICCO) (SDR's/tonne) [illegible]

■ COFFEE LCE ($/tonne) [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

■ COFFEE (ICO) (US cents/pound) [illegible]

■ WHITE SUGAR LCE ($/tonne) [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

Minor Metals [illegible]

INDICES

■ REUTERS (Base: 18/9/31=100) [illegible]

■ CRB Futures (Base: 1967=100) [illegible]

■ GSCI Spot (Base: 1970=100) [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	71.725	–0.500	72.350	71.450	3,928	43,377
Dec	67.750	–0.300	68.075	67.575	1,410	24,506
[illegible]						

■ LIVE HOGS CME (40,000lbs; cents/lbs) [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs) [illegible]

LONDON TRADED OPTIONS

Strike price $ tonne – Calls – Puts –

■ ALUMINIUM (99.7%) LME [illegible]

■ COPPER (Grade A) LME [illegible]

■ COFFEE LCE [illegible]

■ COCOA LCE [illegible]

■ BRENT CRUDE IPE [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) [illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne) [illegible]

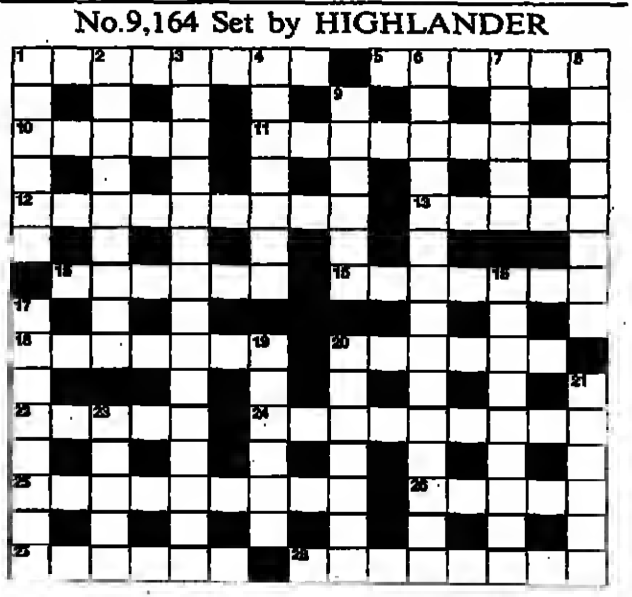
■ NATURAL GAS (Pence/therm) [illegible]

■ OTHER [illegible]

JOTTER PAD

CROSSWORD

No.9,164 Set by HIGHLANDER



ACROSS

1 Reserve concludes they stop volumes falling (4,4)
5 Caught sweetheart in the lap of luxury (6)
10 Good mixer – first person in two centuries (5)
11 Where liars hang out is the ideal spot (7-2)
12 Organised ebout belping reletion (9)
13 Put pressure on without opening lock (5)
14 Does church break bread on Sunday? (6)
15 Took care of royal pecking order (7)
18 Sudden change of attitude about cost for top cereal (7)
20 Provides key to witticisms (6)
22 Not very attractive, like sound of Concorde? (5)
24 Lands unconscious – a sign it's time to retire (6,3)
25 Winning goal; head off the inquiry (9)
26 Slightly damp love-in-a-mist (5)
27 Cuts of meat and timber on board (6)
28 Nothing sussed out about unknown classical hero (8)

DOWN

1 Scientific study is not by a drunk (6)
2 Worsen confusion over joint possession (9)
3 Cry over foreign money! (11,4)
4 Penny at one time is young lady cashier (7)
6 Illuminating occasions for motorists (8-2,5)
7 It's utter wickedness to comprehend nothing (5)
8 Grandiose resort without English direction indicator (4,4)
9 One way to address man about girl's behaviour (6)
16 Make do with better lives inside (9)
17 Ship's drains in ruins (8)
19 Cake appearing in Rene Clair film (6)
20 Busy English got on (7)
21 Conditions in Maine and Vermont (6)
23 Make rotten beer with top of dregs put in twice (5)

Solution 9,163

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Ivory Growth Fund	£22.46	23.70	—	1.73
Lowes Aggressive Portfolio	$10.46	11.50	—	-
Lowes Defensive Ptfolio	$12.02	12.63	—	-
Lowes Collection Ptfolio Ltd.	$11.10	11.75	—	-

For Scimitar Fund see Guernsey

TSB Fund Managers (CI) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
TSB Inland Pension	720.4	758.8	-3.2	-
Inland Equity Acc.	126.6	133.6	-0.7	-

WMB Asset Management (Jersey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	1096.27	—	-

Worldinvest (Managers) Jersey Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Worldinvest Inc Fd †	$258.07	259.98	—	5.78
Excalibur Global Eqty $ *	£77.36	77.75	-2.18	-
Excalibur Stg Global Fixed Inc *	£11.75	11.82	-0.08	4.92

Valued weekly * Mondays, † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monnet, L-2180 Luxembourg 352 4249491320

	Init Notes Chrge	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity		$47.52	48.23	—	-
North America Equity		$73.24	73.61	—	-
Asian Tigers Equity		$60.62	61.23	—	-
Europe Equity		$59.24	60.59	—	-
Germany Equity		DM125.3	125.96	—	-
Japan Equity		$48.40	48.86	—	-
Europe Bond		$59.19	59.34	—	-
US Bond		$57.26	57.40	—	-
Global Bond		$59.13	60.28	—	-
Germany Bond		[illegible]	198.69	—	-
Spain Bond		[illegible]	[illegible]	—	-
Eastern Europe Equity F		[illegible]	104.32	—	-
[illegible]		$54.23	54.91	—	-

Fidelity Funds (u)

Kanseliu Hse, Place de l'Etoile, L-1021 Lux BP 2174

UK-01732 777377 Lux-00 352 250404238

Major Market Funds

	Init Notes Chrge	Selling Price	Buying Price	+ or -	Yield Gr's
America			$2.195	-0.004	-
Europe			DM4.711	+0.009	-
International			$16.03	-0.05	-
Japan			Y132.3	-0.5	-
Pacific			$8.702	-0.084	-
South East Asia			$2.710	-0.017	-
Country Select Funds					
ASEAN			$20.90	-0.21	-
Asian Special Situations			$10.64	-0.09	-
Australia			A$15.44	-0.06	1.38
Emerging Markets			$8.422	-0.012	-
European Sm Cos F			DM12.95	—	-
France			FF61.56	-0.19	-
Germany			DM19.90	-0.07	-
Hong Kong			$44.42	-0.24	0.65
Iberia			Pta1738	-1	-
Indonesia			$8.069	-0.079	-
Italy			L14917	-66	-
Japan Smlr Cos			Y1077	-9	-
Korea F	0		$8.610	-0.076	-
Latin America			$8.380	-0.010	0.54
Malaysia			$33.02	-0.33	-
Nordic			Skr172.0	-0.2	-
Singapore			$24.72	-0.25	-
Switzerland			SFr14.59	+0.04	-
Thailand			$33.04	-0.39	-
United Kingdom			£1.140	+0.003	-
Bond Funds					
European			Ecu10.80	—	5.92
International			$1.504	-0.003	5.46
US Dollar			$5.472	-0.011	5.87
Sterling			£0.246	-0.001	7.30
Yen			Y1835	+8	2.90
Balanced					
European Balanced			DM11.81	+0.03	1.92

Prices as at September 31

Fleming Group (u)

6 Route de Trèves L-2633 Senningerberg Luxembourg

00352 34101 or 0800 360 264

[illegible]

State Street Luxembourg SA

Stonebrand Scudder Environmental Value Fund

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Airsprung	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapGm	Yld Gr's
Royal Bk Canada		[illegible]	[illegible]	[illegible]	[illegible]	5,028	4.0
Toronto-Dom		12⅛	[illegible]	12¼	10⅛	3,884	3.5
Trans Can Pipe	♥	10⅞	-¼	10⅞	7⅞	1,843	3.8
Western Star Trucks		20⅜	-⅛	21⅞	10⅜	232.9	-

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapGm	Yld Gr's	P/E
Anglo Am Ind		£22½xd	—	£34½	£22½	1,093	3.4	♦
Barlow	♣†	[illegible]	—	£10¾	£5½	1,195	2.3	-
Gold Flds Prop R		137½	—	178	120	14.8	8.2	10.7
NK Props		80	—	95	75	3.22	11.4	-
SASOL	♥	645	—	718	475	3,777	1.7	-
SA Brews		£16½	—	£20½	£16⅛	4,809	2.2	♦
Standard Bank		£24¾	-⅛	£32½	£21⅛	2,982	1.5	20.8
Tiger Oats	†	790	—	1270	770	1,188	2.1	16.2
Tongaat-Hulett		[illegible]	[illegible]	[illegible]	730	747.8	2.3	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IMR 'Headline Earnings'/tenants.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, *in pence per share, along with the percentage discounts (Dis) or* premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend. h Figures based on prospectus or other official estimates. F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after ... FD (Foreign Income Dividend) It Forecast annualised yield, p/e based on prospectus or other ... previous year's earnings ... 1995-96. z Dividend yield includes a special payment. G Dividend is paid in whole or part as a ... or capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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LONDON STOCK EXCHANGE

MARKET REPORT

Iraq attack and interest rate fears hit shares

By Steve Thompson, UK Stock Market Editor

A report that the US Federal Reserve is set to hoist US interest rates by half of one percentage point after its next policy making meeting plus news of the US missile attack on Iraqi installations saw UK share prices fall sharply yesterday.

The international worries about the prospect of a deteriorating situation in the Middle East unnerved global bond and stock markets, triggering persistent selling of European stocks.

Adding to the London market's uncertainty was growing speculation about today's regular monthly meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England.

Most market observers adopted the view that the chancellor would not move to reduce UK interest rates yet, although there were some who said a cut was a real *possibility*.

At its worst yesterday, shortly after Wall Street opened for business after the long US holiday weekend, the FT-SE 100 index showed a 48.6 fall, before rallying strongly. It eventually closed the session a net 28.5 lower at 3,855.9.

Weakness in the leaders quickly spilled over into the second line stocks, where the FT-SE Mid 250 index dropped 28.6 to 4,385.4.

Some extreme unease across Europe about the downside potential for Wall Street in view of the US interest rate fears were partly allayed by the latest economic news from across the Atlantic. The National Association of Purchasing Management's August index came in at 52.6 per cent, up from 50.2 per cent but well below some of the US market's more fanciful numbers.

The NAPM number helped calm an initially panicky Wall Street, where the Dow Jones Industrial Average fell almost 60 points, before embarking on a strong recovery which saw the Average pick up sufficiently to post a 16 point rise 90 minutes after London closed.

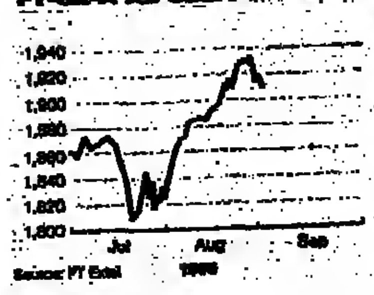
There were few winners in the London market at the outset with oil stocks among a handful of upside performers. But with crude oil prices tending to come off their initial high levels, oil stocks struggled to hold on to their initial gains.

Turnover in equities was given a boost by news that the government had sold its residual stakes in the two English generators, National Power and PowerGen. The stakes, 28.5m and 17m shares respectively, were sold on to Goldman Sachs and UBS, via bought deals.

Goldman paid 390¼p a share for the National Power holding, placing most of the stock at 393p and netting a potential return of £700,000 if all the shares were sold. Turnover figures indicated that the PowerGen stock was not placed.

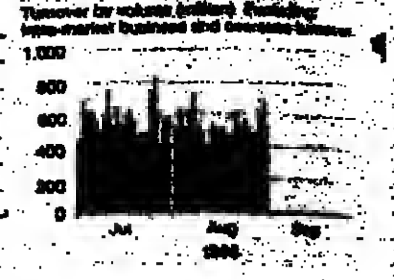
At the 6pm reading overall turnover was 702.8m shares. That figure should see customer business transacted yesterday recover strongly from Monday's £922.2m, the lowest daily total for many months.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3855.9	-28.5	FT Ordinary index	2788.7	-21.0
FT-SE Mid 250	4385.4	-28.6	FT-SE-A Non Fins p/e	17.32	17.43
FT-SE-A 350	1930.9	-13.6	FT-SE 100 Fut Sep	3872.0	-21.0
FT-SE-A All-Share	1908.89	-13.13	10 yr Gilt yield	7.91	7.88
FT-SE-A All-Share yield	3.86	3.83	Long gilt/equity yld ratio	2.15	2.15

Best performing sectors

1. Household Goods +0.7
2. Health Care +0.5
3. Oil Exploration +0.4
4. Chemicals +0.0
5. Extractive Inds +0.0

Worst performing sectors

1. Gas Distribution -1.4
2. Alcoholic Beverages -1.3
3. Banks: Retail -1.3
4. Banks: Merchant -1.1
5. Engineering: Vehicles -1.0

Utilities bought deals

By Joel Kibazo and Lisa Wood

The market spotlight was firmly fixed on the utilities as the government sold its residual stakes in two power generators and a regional electricity company.

National Power topped the list of the day's most actively traded stocks with a closing total of 52m after the government sold its holding of 28.47m shares to Goldman Sachs. The US investment bank is believed to have passed on most of the stock at 393p a share to a range of institutions but was said to have been left with around 5m on its books.

Dealers suggested the sharp decline of the market may have prevented completion of the sale. National Power shares fell 9 to 393p.

Goldman Sachs is believed to have had better luck in placing the government's stake in Southern Electricity. Having taken on 856,928 shares, Goldman Sachs is believed to have placed the stock at 650p a share with several institutions. Shares in the Rec hardened 3 to 665½p, in trade of 2.5m.

The government also disposed of its remaining holding in PowerGen, selling its 17.13m shares to UBS for placing with institutional clients at 496p a share.

Turnover of 20m at the close of the session indicated the securities house had yet to complete the sale to clients. Shares in PowerGen were also weak, closing 8 lower at 496p.

In the rest of the sector, bargain hunting continued in Northern Ireland Electricity. The shares held at 332½p.

The US missile attack on selected targets in Iraq provided the spur for trading in several sectors across the market.

Oil stocks which rose steadily on Monday on the back of the rising global crude oil prices, once again mirrored sentiment in the international oil market. Having moved sharply ahead in the first part of the session, shares in the oil sector retreated to close off their highs.

BP eased 4 to 628½p, and Burmah Castrol Oil fell 3½ to 1065p. Shell Transport managed to remain in positive territory and the shares closed up 3 at 946½p.

The crisis in the Middle East cast a shadow over several stocks in the transport sector.

The list of casualties included British Airways. The shares gave up 12½ to 512p in trade of 6.5m with Merrill Lynch said to have taken the stock off its "buy" list amid fears an escalation in the crisis would hit international travel.

Sentiment was further dampened by reports that a trade union in the US had urged the US government to block the planned alliance between British Airways and American Airways.

With worries about international travel gaining strength during the session, airports operator BAA also came under pressure. The shares surrendered 6½ to 474p. Volume was 1.8m.

The leisure industry suffered what analysts called a knee-jerk effect – at a time when there was stock around – from the conflict in the Middle East, with hotels worst affected. Ladbroke eased to 207½p while Granada fell 15 to 851p.

Granada was also adversely affected by Yorkshire Tyne-Tees TV, at its interim results, expressing concern over its falling advertising revenues. Analysts said other media stocks had been affected by the report but they suggested that problems at Yorkshire were not inherent in independent television at large.

Yorkshire fell 27½ to 1210p while United News & Media slipped 17½ to 705p. This was also partly due to the news that it is to merge its Daily Express and Sunday Express newspaper titles. One analyst said that although the relaunch was positive it would do little to halt the decline in market share.

Iceland, which issued a profits warning in July, cast a pall over the second division of food retailers after reporting disappointing interim results and stating that current trading was worse than expected. A number of analysts trimmed forecasts, including UBS which downgraded its estimate from £62m in the current year to £56m.

One analyst said that while some of the problems were specific to Iceland, which fell 9¼ to 92p, its difficulties were being experienced by a number of the smaller retailers in an intensely competitive market. Kwik Save fell 19½ to 372p and Somerfield softened 3 to 152½p.

In the retail sector Kingfisher advanced 4 to 657½p ahead of results next week. There was profit taking at Next, which slipped 11½ to 568p, and at Dixons which fell 11 to 532p.

A broker's recommendation helped General Accident recover from Monday's falls. The shares firmed 3½ to 643½p, with SGST suggesting investors switch into the stock and out of Royal Sun Alliance. Shares in the latter gave up 9 to 408p, in trade of 5m.

Mr Charles Lander at the broker cited the yield attractions of GA and also said: "On fundamentals Royal Sun will have a difficult couple of years as it executes the recent merger. It also has the highest exposure to the UK cyclical downturn."

Tension in the Middle East was also blamed by one analyst for Guinness falling 12 to 466p. He said that problems in the area reminded the market that Asian-Pacific markets, which are important for Guinness, were slowing down.

Continuing speculation that Bass's acquisition of the majority of Carlsberg-Tetley may face a referral to the Monopolies and Mergers Commission was blamed for Bass falling 9 to 812p.

Tate & Lyle bounced 2½ to 452½p after some caution earlier in the week. Cadbury Schweppes, which has interim results today, softened 3 to 512½p with SGST pointing out that the stock was fully valued relative to the sector.

Hillsdown advanced 2 to 168½p ahead of interim results tomorrow.

There was exceptionally heavy trading in Hanson stock, with two large lines of shares, 9m and 8.5m traded at 157p, boosting overall turnover to 23m. The shares slipped 1¾ to 156¼p.

Croda, the chemicals group, advanced 25½ to 338p on record interim profits and a healthy trading outlook.

George Wimpey fell 3¼ to 130¼p following a poor set of results. A number of brokers trimmed forecasts including BZW which dropped its estimate from £35m to £29m.

Blue Circle softened 3¼ to 373p following results in line with expectations but analysts expressed concerns over where the blue-chip stock goes from here, with a number of overseas markets operating at peak levels.

FINANCIAL TIMES EQUITY INDICES

	Sep 3	Sep 2	Aug 30	Aug 29	Aug 28	Yr ago	*High	*Low
Ordinary Share	2788.7	2807.7	2797.3	2805.7	2828.9	2648.0	2885.2	2658.8
Ord. div. yield	4.08	4.05	4.08	4.05	4.01	4.05	4.32	3.78
P/E ratio net	16.89	17.02	16.98	17.00	17.19	15.82	17.26	15.80
P/E ratio nil	16.73	16.86	16.80	16.84	17.02	15.54	17.03	15.71

Ordinary Share index since compilation: high 2885.2 15/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2803.5	2796.4	2791.3	2791.8	2789.0	2785.3	2779.5	2778.8	2787.2	2803.5	2774.6

	Sep 3	Sep 2	Aug 30	Aug 29	Aug 28	Yr ago
SEAQ bargains	28,984	27,305	31,732	36,751	36,207	24,125
Equity turnover (£m)†	-	922.2	1547.0	2240.8	1837.0	1314.5
Equity bargains†	-	31,041	35,417	40,071	42,521	35,865
Shares traded (mil)†	-	369.2	521.7	682.7	624.0	510.3

†Excluding intra-market business and overseas turnover.

	Sep 3	Sep 2	Aug 30	Aug 29	Aug 28	Yr ago	*High	*Low
FT-SE AIM	1071.80	1083.70	1082.40	1086.30	1088.20	-	1146.40	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	233	Total Highs	43	Total contracts	48,492
Total Falls	962	Total Lows	83	Calls	15,759
Same	1,485			Puts	32,733

Sept 3 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3884.0	3870.0	-24.0	3884.0	3840.0	17336	68386
Dec	3909.0	3891.0	-24.5	3909.0	3861.5	2919	8091
Mar		3903.0	-24.0			0	330

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4395.0	4389.0	-11.0	4390.0	4385.0	170	3769
Dec	4425.0	4421.0	-4.0	4425.0	4421.0	170	0

■ FT-SE 100 INDEX OPTION (LIFFE) (*3855) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Sep 3	% chg on day	Aug 2	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (28)	2808.76	0.0	2831.43	1989.40	1.85	-	2930.73	1722.90
■ Regional Indices								
Africa (13)	2886.92	+1.1	2858.01	2771.57	3.91	37.38	3553.86	2272.74
Australasia (8)	2315.26	-2.8	2376.36	2405.30	2.48	22.88	2907.34	2123.50
North America (11)	1897.24	0.0	1897.67	1871.23	0.73	87.61	2168.38	1458.94

Copyright, The Financial Times Limited 1996. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Indices calculated 2/9/96: Canada and USA.

FT - SE Actuaries Share Indices — The UK Series

	Sep 3	Day's chge%	Sep 2	Aug 30	Aug 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3855.9	-0.7	3884.4	3867.5	3885.0	3532.4	4.08	2.07	14.90	134.10	1597.18
FT-SE Mid 250	4385.4	-0.6	4414.0	4418.2	4432.1	3948.5	3.45	1.84	22.13	129.05	1778.13
FT-SE Mid 250 ex Inv Trusts	4424.5	-0.6	4451.8	4454.2	4469.2	3988.9	3.54	1.88	21.09	135.54	1795.39
FT-SE-A 350	1930.9	-0.7	1944.5	1938.3	1946.7	1762.8	3.93	1.99	16.03	64.95	1633.33
FT-SE-A 350 Higher Yield	1839.5	-0.8	1853.0	1845.0	1855.4	1677.0	4.81	1.88	12.81	68.12	1308.81
FT-SE-A 350 Lower Yield	2029.4	-0.8	2045.8	2037.9	2044.3	1761.6	2.72	2.17	21.17	47.25	1414.95
FT-SE SmallCap	2159.21	-0.3	2164.50	2163.09	2164.86	1978.65	3.05	1.65	24.80	48.21	1782.63
FT-SE SmallCap ex Inv Trusts	2154.42	-0.3	2160.82	2156.95	2157.87	1958.87	3.20	1.73	22.19	48.55	1791.29
FT-SE-A ALL-SHARE	1908.89	-0.7	1922.02	1915.80	1923.75	1742.82	3.86	1.97	16.47	62.41	1639.11

■ FT-SE Actuaries All-Share

	Sep 3	Day's chge%	Sep 2	Aug 30	Aug 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	[illegible]										
12 Extractive Industries(8)	[illegible]										
15 Oil, Integrated(6)	[illegible]										
16 Oil Exploration & Prod(15)	[illegible]										
20 GEN INDUSTRIALS(274)	[illegible]										
21 Building & Construction(34)	[illegible]										
22 Building Matls & Merchs(29)	[illegible]										
23 Chemicals(25)	[illegible]										
24 Diversified Industrials(18)	[illegible]										
25 Electronic & Elect Equip(38)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(14)	[illegible]										
28 Paper, Pckg & Printing(25)	[illegible]										
29 Textiles & Apparel(19)	[illegible]										
30 CONSUMER GOODS(91)	[illegible]										
32 Alcoholic Beverages(8)	[illegible]										
33 Food Producers(24)	[illegible]										
34 Household Goods(15)	[illegible]										
36 Health Care(19)	[illegible]										
37 Pharmaceuticals(13)	[illegible]										
38 Tobacco(1)	[illegible]										
40 SERVICES(253)	[illegible]										
41 Distributors(31)	[illegible]										
42 Leisure & Hotels(24)	[illegible]										
43 Media(49)	[illegible]										
44 Retailers, Food(14)	[illegible]										
45 Retailers, General(44)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(49)	[illegible]										
49 Transport(22)	[illegible]										
60 UTILITIES(32)	[illegible]										
62 Electricity(15)	[illegible]										
64 Gas Distribution(2)	[illegible]										
68 Telecommunications(6)	[illegible]										
69 Water(11)	[illegible]										
69 NON-FINANCIALS(664)	[illegible]										
70 FINANCIALS(106)	[illegible]										
71 Banks, Retail(9)	[illegible]										
72 Banks, Merchant(6)	[illegible]										
73 Insurance(22)	[illegible]										
74 Life Assurance(7)	[illegible]										
77 Other Financial(20)	[illegible]										
79 Property(41)	[illegible]										
80 INVESTMENT TRUSTS(127)	[illegible]										
89 FT-SE-A ALL-SHARE(896)	1908.89	-0.7	1922.02	1915.80	1923.75	1742.82	3.86	1.97	16.47	62.41	1639.11
FT-SE-A Fledgling	[illegible]										
FT-SE-A Fledgling ex Inv Trusts	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3877.1	3865.8	3855.6	3858.9	3855.9	3851.5	3841.8	3838.7	3855.4	3877.1	3835.8
FT-SE Mid 250	4410.0	4402.2	4393.8	4392.7	4390.4	4389.0	4384.8	4381.0	4385.4	4410.0	4381.0
FT-SE-A 350	1941.5	1936.2	1932.7	1932.7	1931.3	1929.4	1925.2	1923.7	1930.6	1941.5	1922.6

Time of FT-SE 100 Day's high: 8:30 AM Day's low: 2:44 PM. FT-SE 100 1996 High: 3919.7 (26/08/96) Low: 3632.3 (16/07/96)

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											-4.7
Pharmaceuticals	[illegible]											-32.9
Water	[illegible]											-8.0
Banks, Retail	[illegible]											-58.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. "The FT-SE Actuaries Share Indices are calculated by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FTSE International Limited 1996. All Rights reserved. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and the Financial Times Limited and are used by FTSE International Limited under licence. Auditor: The WM Company." † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are rounded. Source: FT Staff.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 3 / Sch)

BELGIUM/LUXEMBOURG (Sep 3 / Frs.)

CZECH REP (Sep 3 / Koruna)

DENMARK (Sep 3 / Kr)

FINLAND (Sep 3 / Mka)

FRANCE (Sep 3 / Frs.)

GERMANY (Sep 3 / Dm.)

GREECE (Sep 3 / Drachma)

ITALY (Sep 3 / Lire)

NETHERLANDS (Sep 3 / Fls.)

NORWAY (Sep 3 / Kroner)

POLAND (Sep 3 / Zloty)

PORTUGAL (Sep 3 / Escudo)

SPAIN (Sep 3 / Pts.)

SWEDEN (Sep 3 / Kronor)

SWITZERLAND (Sep 3 / Frs.)

TURKEY (Sep 3 / TL Lira)

PACIFIC

JAPAN (Sep 3 / Yen)

AUSTRALIA (Sep 3 / AustS)

HONG KONG (Sep 3 / H.K.$)

INDONESIA (Sep 3 / Rupiah)

MALAYSIA (Sep 3 / MYR)

NEW ZEALAND (Sep 3 / NZ $)

SINGAPORE (Sep 3 / S$)

SOUTH KOREA (Sep 3 / Won)

TAIWAN (Sep 3 / TW $)

THAILAND (Sep 3 / Baht)

AFRICA

SOUTH AFRICA (Sep 3 / Rand)

	+/-	High	Low	Yld	P/E
W Deep	185.80	+.80	223	100.80	3.0
Winkla	35.30	—	44.50	25	5.0

NORTH AMERICA

CANADA

TORONTO (Sep 3 / Can $)

4 pm close

MONTREAL (Sep 3 / Can $)

4 pm close

Sales	Stock		+/-	High	Low
37498	Abitib	18⅞	-¼	25⅛	16½
192451	AgnEag	23½	-⅝	28	14⅝
88150	AirCda	4⅞		5⅝	4¼
90093	AlbtaE	25¼		27¾	19⅝
214090	AlcnAl	43	-⅛	47¾	38¾
38900	AtcoCl	20	+⅛	20⅝	16½
57600	Avenor	23½		30¼	18⅞
18970	BCSugA	18¾	-¼	11¼	7⅞
29630	BC Tel	27⅞		20⅝	23
298001	BCE	54		56⅝	47
6450	BCE Mb	40½		48½	39
14735	BGR A	18½		20⅝	13¼
284873	BkMont	35⅝	-¼	34⅛	29
259760	BkNovS	33¼	-¼	34¼	26¾
1678080	BrckGd	37½	+⅝	40	30¾
339450	BramEx	2.05	+.05	2.23	1.28
1800	BombA	18⅞		21⅞	14⅞
351801	BmbdrB	19¼		21⅞	14⅞
30365	BracnA	26	-⅛	28⅝	20

Australian stocks (end of list):

		+/-	High	Low	Yld	P/E
Orbitl	0.99	...	1.81	0.78	...	...
PacDun	2.71	-.02	3.37	2.55	0.3	...
PacMag	8.24	-.11	3.45	2.57	6.3	...
PasmrCS	1.84	-.01	1.80	1.38	1.8	...
Plosin	3.49xd	-.05	4.03	3.18	5.2	14.5
PlaPac	1.50	-.02	3.25	1.52	1.5	—
Plutnc	6.25	-.05	7.52	5.25	1.5	—
PubBr	5.90	-.03	6.01	4.30	2.4	—
QBE In	7.80	-.05	7.31	5.53	3.5	—
QCT Re	1.71	...	1.90	1.50	3.9	—
QNI	2.72	-.05	3.31	2.31	4.8	—
Qantas	1.98	-.02	2.47	1.87	6.6	—
RGC	0.78	-.07	0.00	0.72	1.7	—
Rothmn	6.84	-11	7.30	4.82	6.1	—
Santos	4.50	+.05	4.90	3.47	4.7	11.4
Schint	2.41	—	2.88	2.10	...	—
7 Netw	3.88	—	4.18	3.19	4.3	—
SmthHw	9.34	+.07	9.35	5.84	3.6	—
SonGwa	8	-.06	6.55	6.34	3.1	—
Starp	3.38	+.12	3.66	2.77	4.9	—
StGeBk	8.08	-.07	18	6.40	2.4	—
Stckld	2.97	-.02	3.35	2.76	8.2	27.2

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $.

INDICES

	Sep 3	Sep 2	Aug 30	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	15750.35	15714.82	18881.95	20/5	15297.25	22/8
Australia							
All Ordinaries(1/1/80)	2244.6	2256.7	2268.7	2328.00	26/4	2086.10	17/7
All Mining(1/1/80)	990.0	997.7	1009.8	1118.49	8/5	934.90	16/7
Austria							
Credit Aktien(30/12/84)	349.84	353.17	356.79	394.80	31/5	349.84	3/9
Traded Index(2/1/91)	1022.37	1033.38	1039.93	1142.81	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1717.16	1219.47	1714.31	1773.28	28/5	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	62325	62594	66822.00	12/7	43901.00	2/1
Canada							
Metals Minls♦(1975)	(u)	(c)	5260.58	5624.60	8/5	4687.47	15/1
Composite♦(1975)	(u)	(c)	5143.40	5246.40	31/5	4738.70	15/1
Portfolio§§(4/1/83)	(u)	(c)	2500.35	2508.55	27/5	2327.30	12/1
Chile							
IPSA Gen♥(31/12/80)	(u)	5288.95	5302.96	5804.33	9/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	421.41	423.54	423.12	424.40	28/8	368.40	2/1
Finland							
HEX General(28/12/90)	2100.14	2133.75	2144.37	2147.80	28/8	1851.67	10/1
France							
SBF 250(31/12/90)	1352.30	1357.62	1353.50	1457.50	6/6	1250.16	2/1
CAC 40(31/12/87)	1971.43	1976.56	1970.81	2146.79	30/4	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	882.34	889.89	891.83	921.74	5/7	818.58	2/1
Commerzbank(1/12/53)	2570.20	2592.90	2598.30	2627.86	5/7	2370.10	2/1
DAX‡(30/12/87)	2510.77	2532.88	2543.83	2583.48	5/7	2284.86	2/1
Greece							
Athens SE(31/12/80)	930.84	938.91	945.80	1017.96	4/3	872.80	7/8
Hong Kong							
Hang Seng(31/7/64)	10957.18	11106.57	11139.02	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3484.58	3552.98	3514.61	4069.28	18/6	2828.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	540.54	545.02	547.81	630.21	24/4	582.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2518.92	2535.18	2543.51	2588.19	18/6	2234.81	2/1
Italy							
Banca Comm. Ital(1972)	594.12	592.84	598.95	674.10	20/5	572.21	27/3
MIB General(2/1/86)	990.0	1004.0	1015.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	20188.15	20107.11	20166.90	22666.80	26/6	19734.79	13/3
Nikkei 300(1/10/82)	287.85	287.04	287.47	318.70	26/6	284.48	11/3
Topix(4/1/68)	1546.13	1538.67	1543.49	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2114.77	2113.64	2118.12	2251.48	2/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1093.32	1108.20	1118.57	1180.54	30/4	993.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3309.58	3305.47	3433.75	27/8	2738.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	632.2	635.50	630.1	652.80	12/6	538.50	2/1
CBS All Shr(End 83)	373.7	375.6	372.6	387.10	12/6	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2223.09	2216.72	2228.77	2240.49	28/6	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1367.39	1378.80	1371.96	1486.71	12/6	1258.69	30/1
Philippines							
Manila Comp(2/1/85)	3207.89	3249.39	3220.71	3574.48	5/7	2878.07	2/1
Portugal							
BVL 30(4/1/88)	1975.07	1975.73	1971.10	1978.22	28/8	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	528.54	530.14	537.57	610.37	5/2	522.35	30/7
South Africa							
JSE Gold(28/9/78)	1806.4♥	1799.9	1787.8	2030.40	29/5	1346.40	2/1
JSE Indl.(28/9/78)	7858.9♥	7911.8	7835.6	8730.30	25/1	7835.80	30/8
South Korea							
KoreaCompEx**(4/1/80)	769.80	774.26	782.86	986.84	7/5	758.35	28/8
Spain							
Madrid SE(30/12/85)	352.01	354.45	353.97	376.25	1/7	323.76	11/1
Sweden							
AffarsvardsGen(1/2/37)	1993.9	2008.4	2004.4	2019.00	6/6	1706.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1734.45	1747.76	1743.86	1811.66	11/7	1518.39	17/1
SBC General(1/4/87)	1224.41	1234.46	1233.50	1264.96	11/7	1114.47	28/1
Taiwan							
WeightedPr.**(30/6/66)	6257.97	6342.17	6309.82	6666.41	29/6	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1064.46	1086.28	1102.32	1415.04	6/2	1064.04	31/7
Turkey							
Istanbul Comp.(Jan 1986)	62561.9	63275.8	(c)	73831.30	8/7	36778.30	2/1
WORLD							
MS Capital Intl†(1/1/70)	753.7*	758.8	758.9	789.20	1/7	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1630.66	1640.34	1642.17	1700.78	4/7	1504.40	11/1
Euro Top-100(26/6/90)	1400.09	1409.74	1408.59	1458.28	28/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	371.04	373.80	383.18	18/4	344.19	2/1
ING Brngs Emrg(7/1/92)	157.33	158.78	158.91	165.91	4/7	147.25	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Sep	1974.0	1977.0	-4.0	1977.0	1953.5	18,106	31,254
Oct	1979.0	1981.5	-4.5	1979.0	1961.5	1,378	2,435
■ DAX							
Sep	2540.0	2532.5	-11.0	2541.0	2511.5	28,730	—
Dec	2559.5	2550.5	-11.5	2559.5	2529.0	1,810	—
■ OMX							
Sep	1563.00	1549.00	-12.00	1563.00	1536.00	5,721	22,283
Oct	1547.50	1547.50	-14.50	1547.50	1547.50	2	1,280
■ SOFFEX							
Sep	3857.0	3821.5	-37.0	3857.0	3598.0	7,423	24,968
Oct	-	3830.5	-	-	-	88	615

= Sat Aug 31: Taiwan Weighted Price 6324.60; Korea Comp Ex 781.49. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 3 - 2528.73 -9.81

† Corrected MS Cap Int index for 29/8: 754.08. * Calc at 15.00 GMT. ⊕ Excl bonds. ‡ Indl. plus Utilities, Fin and Transp. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Aug 30	Aug 29	Aug 28	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5616.21	5647.65	5713.30	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	161.62	101.76	161.88	106.09 (14/2)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2044.78	2057.34	2071.03	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	12.32 (8/7/32)
Utilities	214.30	216.32	218.91	234.80 (12/2)	204.86 (30/7)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5659.55 (5716.82) Low 5571.40 (5615.47) (Theoretical♦)
Day's high 5648.54 (5712.01) Low 5588.47 (5625.83) (Actual♦)

Standard and Poors	Aug 30	Aug 29	Aug 28	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	651.99	657.40	664.81	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	770.39	776.52	785.34	807.86 (6/6)	702.07 (15/1)	807.86 (6/6/96)	3.62 (21/6/32)
Financial	67.88	68.58	69.40	70.08 (22/8)	58.67 (10/1)	70.08 (22/8/96)	8.64 (1/10/74)
NYSE Comp.	350.99	353.38	356.79	363.74 (24/5)	321.41 (18/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	559.68	561.34	563.39	614.98 (22/5)	525.60 (16/7)	614.98 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1141.50	1145.03	1153.88	1249.14 (6/6)	988.57 (15/1)	1249.14 (6/6/96)	54.87 (31/10/72)

■ RATIOS

	Aug 30	Aug 23	Aug 16	Year ago
Dow Jones Ind. Div. Yield	2.26	2.21	2.18	2.46
	Aug 28	Aug 21	Aug 14	Year ago
S & P Ind. Div. yield	2.02	2.02	2.04	2.07
S & P Ind. P/E ratio	21.77	21.74	22.04	18.68

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Pepsico	10,062,800	28¾	+⅛
NationsBK	6,810,400	85⅛	-7¼
Federal Ml	3,323,400	31	-1
Coca Cola	2,528,100	50	-⅛
Natl Semic	2,406,000	18⅝	+⅛
Wal-Mart	2,293,000	25½	—
Philip Mr	2,228,400	89¾	-⅝
Hewlett-P	2,098,500	43¾	-¾
Chase Man	1,879,800	74⅝	-1½
Merrill Ly	1,650,600	61⅛	+1

■ TRADING ACTIVITY

● Volume (million)

	Aug 30	Aug 29	Aug 28
New York SE	258.946	321.092	295.382
Amex	13.748	15.557	16.587
NASDAQ	342.985	429.203	470.688
NYSE			
Issues Traded	3,138	3,184	3,161
Rises	805	742	1,305
Falls	1,474	1,631	979
Unchanged	857	811	877
New Highs	32	50	94
New Lows	27	30	21

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Sep	649.40	644.80	-6.55	651.90	644.65	69,862	160,601
Dec	-	657.20	-	-	656.00	12,036	33,087

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Sep	20040.0	20250.0	+100.0	20320.0	19930.0	26,409	204,063
Dec	20030.0	20250.0	+110.0	20330.0	19940.0	25,727	109,121

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, September 3, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hoko Fishing	6.6m	512	+10	Ishihara Hvy Ind	3.5m	506	-4
TYK Corp	4.6m	1500	+10	Fuji Kosan	3.1m	460	+38
Nippon Steel Cp	4.1m	344	+1	Mitsui Matushima	3.0m	692	-23
Takasaki Paper	4.1m	391	+17	Toyo Chemical	3.0m	804	+12
NKK Corp	3.8m	291	+1	Ando Corp	3.0m	640	-10

NEW YORK STOCK EXCHANGE PRICES

4 pm close September 3

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	17⅝	AAR	0.48	2.2	21	100	21⅛	21⅛	21⅛	-⅛
46⅛	36⅛	AMP	1.00	2.7	17	2348	38	37⅜	37⅜	-⅞
97½	68	AMR			18	8674	82	79¼	82	
50½	37⅜	ASA	2.00	5.0	26	245	40	39½	39⅞	+⅛
47¾	39⅛	AbbtL	0.98	2.1	19	7984	45⅝	44⅞	45½	+⅛
17¾	12¾	Abitibi Pr x	0.40	3.0	0	160	13½	13½	13½	
20⅛	13½	ABM Ind	0.35	2.1	17	152	17¼	16⅞	17	-⅛
16⅞	13⅞	Acptacsin			90	17	17⅛	17⅛	17⅛	
50⅞	37¾	ACE Ltd	0.56	1.2	11	308	46½	45¼	45⅞	-⅛
10⅛	9⅛	ACM Gvt In	0.90	9.6	0	128	10	9⅞	10	+⅛
7⅞	6⅝	ACM GvOpp	0.57	8.3		385	7	6⅞	6⅞	-⅛
7¼	0	ACM Gvt Sp	0.80	2.8		495	6¾	6½	6¾	+⅛
9⅛	8¼	ACM Gvt Se	0.80	10.5		281	8⅞	8¾	8¾	
9⅝	8⅝	ACM Man	0.80	9.4		572	u9⅝	9½	9⅝	+⅛
13⅞	6⅛	Acme Elect	0.32	4.3	122	37	7½	7¼	7⅜	+⅛
17½	13⅞	Acme Mills			9	108	15	14⅞	15	+⅛
33¾	27¾	Acordia x	0.72	2.3	19	13	30¾	30½	30¾	
51⅛	12	Acuson			68	279	13¾	13¼	13⅞	+⅛
18½	17⅞	Adams Expr	0.48	2.5	0	385	18	18⅞	18⅞	-⅛
21¾	10¼	Advnlite			8	2802	12¾	12½	12½	-¼
11⅝	8½	Advest Grp	0.10	1.6	7	60	9⅞	9¾	9¾	-⅛
26⅛	9⅛	Advo Inc	0.10	1.0	500	189	10	9⅝	10	+⅛
31⅞	41⅛	Aegon	1.46	2.6	12	18	49¾	49½	49½	+⅛
6¾	3½	Aetix			2	167	5⅝	5½	5½	
69½	57⅝	Aetna	0.80	1.2	7	4298	65⅝	64½	58	-1⅛
38½	28¼	Aflac	0.40	1.2	14	1927	34⅞	33⅝	33⅞	-¾
51¾	17⅛	AGL Res	1.00	8.3	19	881	20¼	19¾	20⅝	-¼
28	21¾	Ahmanson	0.88	5.5	7	2194	25½	25⅛	25⅞	+⅛
60⅞	50⅞	AirPrC	1.10	2.0	14	2802	54½	53¾	53⅞	-⅞
28⅝	30¾	Airbne Frt	0.30	1.3	12	580	23⅝	23½	23½	-¼
29⅝	15½	Airgas Inc			36	681	22⅞	22⅜	22⅝	+⅛
18⅞	13¼	Airlease	1.80	12.4	9	170	14¾	14¾	14½	+½
33⅝	56	AirTch			77	7701	27⅝	26⅞	27¼	-¼
30⅞	15⅞	Alaska Air	0.20	1.0	7	897	51	20½	20¾	-⅛

Continued on next page

مكتفا من الأصل

NYSE PRICES

4 pm close September 3

Continued from previous page

- X - Y - Z -

$57\frac{1}{8}$	$30\frac{3}{4}$	Xerox	1.19	2.1	49	4985	58	53	$55\frac{5}{8}$	$+\frac{3}{4}$
$47\frac{3}{8}$	$39\frac{3}{4}$	Xtra Corp	0.72	1.7	16	28	$43\frac{1}{8}$	43	43	$-\frac{3}{8}$
$25\frac{3}{4}$	$20\frac{3}{8}$	Yankee Egy	1.30	5.8	11	32	$22\frac{3}{8}$	$22\frac{1}{4}$	$22\frac{3}{8}$	
$55\frac{3}{4}$	$42\frac{5}{8}$	York Int	0.36	0.8	37	495	$46\frac{5}{8}$	$44\frac{3}{4}$	$45\frac{3}{8}$	$+1\frac{1}{4}$
$3\frac{7}{8}$	5	Zapata	0.14	3.9	10	97	$3\frac{5}{8}$	$3\frac{5}{8}$	$3\frac{5}{8}$	
$25\frac{3}{4}$	$5\frac{7}{8}$	ZenithEl				1011172	$15\frac{1}{2}$	$14\frac{3}{8}$	$14\frac{3}{4}$	
$26\frac{7}{8}$	$21\frac{5}{8}$	Zenith Nat	1.00	3.8	35	32	$26\frac{3}{4}$	$26\frac{1}{2}$	$26\frac{1}{2}$	$-\frac{1}{2}$
$7\frac{1}{8}$	$6\frac{1}{8}$	Zenix Inc	0.72	10.3		138	$7\frac{1}{8}$	7	7	
$22\frac{7}{8}$	$15\frac{1}{8}$	Zero	0.12	0.5	17	15	$20\frac{1}{4}$	$20\frac{1}{4}$	$20\frac{1}{4}$	
$22\frac{1}{4}$	$18\frac{1}{2}$	Zurn Ind	0.40	1.9	18	753	21	$20\frac{5}{8}$	21	$+\frac{3}{4}$
$11\frac{5}{8}$	$10\frac{1}{2}$	Zweig Fund	1.08	9.9		398	$10\frac{7}{8}$	$10\frac{5}{8}$	$10\frac{7}{8}$	
9	$8\frac{1}{4}$	Zweig Totl	0.84	9.9		285	$8\frac{5}{8}$	$8\frac{1}{2}$	$8\frac{1}{2}$	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. [illegible]. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close September 3

AMEX PRICES

4 pm close September 3

AMERICA

Dow pulls ahead after big early loss

Wall Street

Interest rate worries and the military tensions between the US and Iraq, sent US shares lower in early trading, but at mid-morning they began to reverse course as the day's data came in weaker than many investors had expected, *writes Lisa Bransten in New York.*

Blue chip companies in the Dow Jones Industrial Average were off as much as 54 points in early trading but began recovering at 10am after the National Association of Purchasing Management put its August index of manufacturing activity at 52.6. Many on Wall Street had feared that the NAPM figure would be closer to the 60 reported on Friday by the Chicago purchasing managers association.

By 1pm the Dow was 17.01 stronger at 5,633.22, and the Standard & Poor's 500 was up 1.38 at 653.37, while the American Stock Exchange composite fell 3.16 at 555.52. NYSE volume was 209m shares.

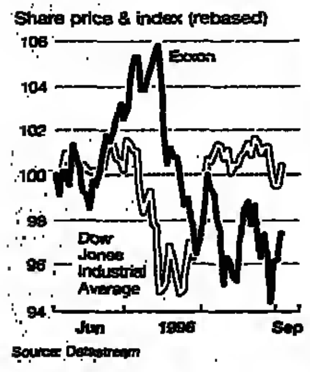
The military tensions between the US and Iraq had a mixed effect on the Dow. Analysts said that the fears that the conflict could deepen contributed to early losses, but rising oil prices gave a boost to the three oil companies in the index. Exxon added $2¾ at $83¾, Chevron was $1⅛ stronger at $60 and Texaco climbed $2⅝ to $91⅝.

But rising fuel prices were a negative for airlines and other transport companies. The Dow Jones Transportation index lost 19.55 at 2,025.23. UAL, the parent company of United Airlines, slipped $1⅛ at $45⅝. AMR, parent of American Airlines, fell $1⅜ at $80⅜. Delta Air Lines lost $1⅜ at $69⅛ and USAir fell $⅝ to $17⅛.

Smaller capitalisation and technology shares also reversed course but did not make it into positive territory. The Nasdaq composite, which is about 40 per cent technology shares, was off 18 points before recovering by early afternoon and holding with a loss of 3.15 at 1,138.35. The Pacific Stock Exchange technology index was 0.3 per cent weaker.

In individual shares, Arcadian added $2⅛ at $24⅛ on news that it had agreed to be acquired by Canada's Potash for around $1.6bn. Shares in Potash, which are traded on the New York stock Exchange, lost $2⅞ at $73⅛ on the news.

Exxon



Source: Datastream

Canada

Toronto stocks were mixed at mid-session. Gold shares showed gains but the broad market moved lower. At midday the TSE index was off 4.20 to 5138.30.

There was said to be good demand for gold and oil stocks. "These sectors should see us in good stead", said one Toronto broker. But weakness for Canadian bonds held back the equity market as a whole. Outside the resources sectors, the most heavily hit area was media shares.

Among individual shares, Golden Knight Resources dipped 10 cents to C$8.60 following news of a placing by the company. Bombardier held steady at C$19.40 after the announcement that the group was to go ahead with sales of its 70-seater jet.

Mexico City under pressure

Mexico City was weak at midsession with the IPC index 29.82 weaker at 3,279.76 in nervous response to events in Iraq.

Leading losers were the B shares of the financial group BBV-Probursa, down 4.5 per cent to 56 centavos.

The A shares of Cemex, the cement producer, were also under pressure, falling 3.2 per cent or 90 centavos to 27 pesos. Nominal shares of the builder, Tribasa, slipped 3 per cent to 18.72 pesos.

Bellwether Telmex L shares were down 1.3 per cent to 12.22 pesos.

SAO PAULO edged lower at midsession, influenced by a sharp rise in the key US 30 year Treasury bond yield. The Bovespa index of the 49 most active stocks fell to 197 to 62,128 but in weak volume of R$160.9m.

The benchmark Telebras preferred fell 0.8 per cent to R$74.80.

S Africa industrials weaken

Johannesburg's industrial stocks reversed early gains to end weaker on the back of the weak Wall Street opening and as futures players unwound positions ahead of the close-out.

Golds, however, held *firmer levels on a better bullion price.*

The overall index lost 29.9 to 6,705.1 and industrials fell 52.9 to 7,858.9, but golds rose 6.5 to 1,806.4.

Analysts noted that while turnover was heavy, *two-way action* between institutions, overseas investors and futures players saw losses kept to a moderate level.

De Beers dropped R2 to R137.75, Anglo American eased just 50 cents to R273 and Vaal Reefs picked np 525 cents to R387.

EUROPE

Paris looks to leading oil stocks for support

News of the US military strikes against Iraq and worries about an imminent uptick for US interest rates dominated activity in the European markets. However, as the day wore on PARIS rallied from the day's lows to close just 0.3 per cent lower.The oil sector stayed strong ahead of this week's results from both Total and Elf Aquitaine, and Thomson-CSF remained at the centre of a sea of takeover speculation. A number of financial shares also made up ground.

Volume stayed on the light side and at the close the CAC-40 was down 5.55 at 1971.43.

Total gained FFr4.60 to FFr384.4 and Elf put on FFr4.90 to FFr391.8 as investors continued to buy the sector on the back of firm oil prices and a general round of broker earnings upgrades. Total reports interims today and Elf follows suit tomorrow.

Among financials, Bancaire gained FFr7.00 to FFr503 and Suez rose FFr0.9 to FFr183.4. Profit-taking hit Alcatel Alsthom and the shares, up FFr4.40 on Monday, came off FFr3.4 to FFr388. Thomson-CSF rose a further FFr0.70 to FFr 148.2.

FT-SE Actuaries Share Indices

Sep 3						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1606.02	1604.54	1604.16	1603.85	1602.14	1600.93	1602.24	1605.88
FT-SE Eurotrack 200	1705.56	1705.28	1705.40	1703.93	1703.04	1700.38	1700.49	1703.67
	Sep 2	Aug 30	Aug 29	Aug 28	Aug 27			
FT-SE Eurotrack 100	1640.35	1642.17	1655.54	1660.20	1657.29			
FT-SE Eurotrack 200	1712.88	1712.25	1724.74	1732.81	1726.62			

[illegible]

Promodes, the retailer, gained FFr6.00 to FFr1,224 after news of the disposal of a loss-making German unit and as one leading broker upgraded its stance on the stock.

FRANKFURT had a volatile session with share prices ending lower in what dealers described as good two-way volume. The Dax eased 9.61 to 2528.73 on an *Ibis-indicated* basis.

Lufthansa and Volkswagen both moved steeply lower, and there was said to be substantial profit-taking among second-line shares. On the upside, retailer Karstadt was a feature, gaining DM7.60 to DM528.50.

Lufthansa fell DM6.75 to DM201.50 following a statement from the company which suggested that a further round of cost-cutting would be needed if it was to successfully ride out the tough trading conditions facing world airlines.

Deutsche Bank came off 6 pfg to DM72.70 with sentiment depressed by the problems at its UK investment arm, Morgan Grenfell. In spite of a recent upgrade by Lehman Brothers, Siemens gave up 22 pfg to DM77.92.

Volkswagen dipped DM5.70 to DM538 after the company dismissed reports that a compromise had been reached with Brussels in the group's row over plant subsidies.

AMSTERDAM ended comfortably above the worst of the day. Financial stocks were noticeably weak but Royal Dutch Shell, underpinned by firm oil prices, continued to move ahead.

Along with the European wide trend, bonds eased on worries about tighter US monetary policy, and the equity market as whole mirrored the downtrend. The AEX index ended 4.00 lower at 550.98.

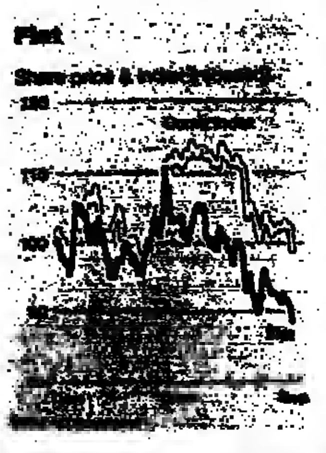
Financials led the way down with ING off 80 cents at Fl 51.26 and ABN Amro falling Fl 1.20 to Fl 89.70.

Up Fl3.90 on Monday as dealers scrambled for stock on the back of fast rising oil prices, Royal Dutch Shell added a further 90 cents to Fl 252.80.

MILAN was weighed down by a host of depressing factors, with a further tumble by Olivetti again drawing unwelcome attention to the stock. The Comit index lost 8.72 to 584.12.

Olivetti dropped 5.1 per cent as a series of rumours continued to pressure the stock and as investors awaiting the outcome of a board meeting late in the day. The share finished L39.1 lower at L726, having picked up from the day's low of L711. Among the rumours was one that the company was likely to make further provisions for future restructuring, and that further losses were likely on its balance sheet. There was a report that a number of senior managers had left the company, talk of a management coup, and speculation about an attempt by investors holding a 25 per cent stake to adopt a strategy to confront the management.

Fiat



Fiat sank to its lowest level for two and a half years, breaching a key psychological level at L4,500 per share, as the gloomy outlook for the car market continued to weigh on the share. The shares finished L114 down at L4,480, after an intraday L4,430, as the market awaited data on car registrations for August, which is scheduled for next Tuesday.

ZURICH was weak, but closed off its day's lows, with the big index blue chips bearing the brunt of the selling pressure. The SMI index fell 30.6 to 3,623.9.

Among the day's biggest losers, Roche certificates fell SFr95 to SFr9,055, UBS was SFr21 weaker at SFr1,147 and Nestlé gave up SFr8 to SFr1,399.

Elsewhere, ABB was SFr10 lower at SFr1,467, Sulzer lost SFr8 to SFr743 ahead of its announcement today of half year profits which were expected to have doubled, and Alusuisse eased SFr10 to SFr916.

MADRID was down but off its lows in line with Wall Street and bonds after a nervous, occasionally volatile session which left the general index 2.44 weaker at 332.01.

BRUSSELS looked to Tractebel for support as the broad market came under pressure and the Bel 20 index finished 2.31 weaker at 1,717.16. Tractebel jumped BFr500 to BFr13,425 after an unconfirmed press report said that GBL and affiliated companies were offering control of the utility to a fellow holding company, SGB, at BFr14,500 a share.

SGB rose BFr15 to BFr2,400 and GBL picked up BFr25 to BFr3,840.

Written and edited by Michael Morgan and Jeffrey Brown

ASIA PACIFIC

Dollar's rise and bargain hunting boost Nikkei

Tokyo

Shares shrugged off a bout of technical selling which briefly pushed the Nikkei average below the 20,000 level, and the index closed higher for the first time in five trading days, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index closed up 91.04 at 20,158.15 after moving between 19,920.02 and 20,289.99. In early trade investors were unnerved by reports that the government would forego a supplementary budget to support the economy, prompting technical sales.

However, bargain hunting by domestic institutions of large capital stocks underpinned the market, while the dollar's rise against the yen supported high-technology stocks, boosting the index.

Cabinet members tried to talk down fears of a weaker stock market. "Stock prices have recovered the 20,000 level. Share prices have been influenced by weakness in US stocks and I have a feeling that futures drops will not be very large," said Mr Seiroku Kajiyama, chief cabinet secretary.

The Topix index of all first section stocks gained 6.45 to 1,546.12 and the Nikkei 300 rose 0.81 to 287.85. Volume totalled 266m shares against 203m. Gainers led declines by 713 to 332 with 178 issues remaining unchanged.

In London, the ISE/Nikkei 50 index rose 0.22 to 1,377.50.

Large capital steels which were sold off earlier in the week on fears of downward earnings revisions, were bought. Nippon Steel rose Y1 *to Y344. NKK* increased Y1 to Y291 and Kobe Steel climbed Y1 to Y263.

High-technology stocks gained ground, with Toshiba up Y2 *to Y709, Sony gaining* Y50 to Y6,830 and Fujitsu adding Y1 to Y990.

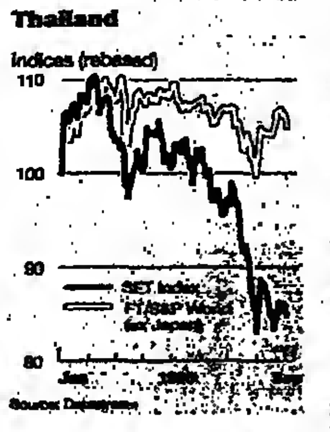
Car stocks were higher. Toyota Motor gained Y10 to Y2,620, Nissan Motor added Y10 to Y824 and Isuzu Motors rose Y11 to Y571.

Some bank stocks were lower on fears of over-supply after Nippon Credit Bank announced a capital increase of Y51bn in preferred shares. Nippon Credit Bank closed unchanged at Y376, but Industrial Bank of Japan lost Y10 to Y2,310 and Mitsubishi Trust and Banking fell Y20 to Y1,600.

Kyocera, the ceramic semiconductor package maker, rose Y40 to Y7,410 on reports of favourable earnings prospects. Similar forecasts lifted Oki Electric Industry Y6 to Y698.

In Osaka, the OSE average rose 52.77 to 21,325.64 in volume of 50m shares.

Thailand



Source: Datastream

Roundup

Some regional markets were unsettled by news that the US had launched cruise missile strikes against targets in Iraq.

HONG KONG also faced interest rate worries which left the *Hang Seng* index 149.39 lower at 10,957.15. Turnover of HK$4.2bn, boosted by a burst of selling at the start of the afternoon session as investors reacted to the attack on Iraq.

Intereet-rate sensitive banks were hit. HSBC ended HK$2.50 lower at HK$129.50 and Hang Seng Bank fell HK$0.75 to HK$78.50.

SINGAPORE regained its composure after a sharp slide, accentuated by the low level of trade. The Straits Times Industrials index finished 23.54 weaker at 2,105.26.

BANGKOK stocks partly recovered from a weak opening. The SET index, down more than 48 points at one stage during the morning, closed off 21.78 at 1,064.45.

KUALA LUMPUR stayed out of sorts, continuing its consolidation amid renewed fears of monetary tightening in Malaysia following stronger money supply growth in July.

The composite index ended 12.88 or 1.2 per cent lower at 1,093.32 after hitting a low of 1,086.49 in early afternoon trade, while the more speculative Second Board index fell 13.89 or 2.6 per cent to 522.57.

SEOUL drew encouragement from new economic policies unveiled in the afternoon by the finance ministry, and the composite index picked up from a low of 764.80 to close 4.46 weaker at 769.80. Eagerly awaited news that the foreign stock ownership limit would be lifted on October 1 to 20 per cent from 18 per cent came after the market closed.

SYDNEY closed lower, dragged down by a weak bond market which was hit by stronger than expected July retail figures and worries about a possible tightening of US monetary policy.

At the close, the All Ordinaries index was 12.1 lower at 2,244. Brokers said early buying had fizzled out before lunchtime while news of the US air strikes coincided with the market's closing bell.

WELLINGTON ignored bond market weakness and closed with modest gains. The NZSE-40 Capital index ended 6.37 higher at 2,229.09 in thin turnover of NZ$56m.

Air New Zealand provided the main feature, announcing details of its planned purchase of a half share in Ansett Australia for A$475m plus a rights issue to partly finance the acquisition.

As part of the deal, foreign ownership of Air NZ is being widened. Foreign ownership of the B shares is being increased from 35 per cent to 49 per cent. Air NZ B closed 38 cents lower at NZ$3.95 while the A shares added 11 cents to NZ$3.25.

TAIPEI ended lower with the weighted index off 84.20 or 1.3 per cent at 6,257.97.

Some foreign equity funds saw the weakness as a buying opportunity. Computer group Acer gained 90 cents to T$38.30/41, and Taiwan Semiconductor added 50 cents to T$56.00.

BOMBAY turned back after a strong start as the finance minister again put off a crucial speech to parliament about budget proposals. The BSE-30 index finished down 78.30 at 3,484.68.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY SEPTEMBER 2 1996								FRIDAY AUGUST 30 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	203.06	−0.9	193.04	140.12	156.97	170.98	−0.7	4.43	204.82	194.28	140.60	157.36	172.15	212.18	179.77	184.88
Austria (24)	179.10	−1.3	170.26	123.59	138.45	138.37	−0.7	2.03	181.38	172.05	124.61	139.35	139.28	195.04	168.11	184.29
Belgium (27)	213.92	−0.4	203.36	147.61	165.36	161.43	0.2	4.12	214.68	203.64	147.37	164.94	161.10	218.69	187.17	188.48
Brazil (28)	177.95	−0.5	169.18	122.79	137.56	332.86	−0.5	1.92	178.86	169.66	122.78	137.42	334.66	189.70	128.97	151.73
Canada (118)	162.65	−0.1	154.62	112.24	125.73	161.27	0.0	2.22	162.77	154.40	111.74	125.05	161.27	165.12	134.14	145.82
Denmark (30)	318.88	−0.3	302.95	219.90	246.34	249.03	0.3	1.84	318.62	303.18	219.41	245.56	248.30	321.04	276.89	279.46
Finland (23)	212.12	−1.0	201.64	146.37	163.97	200.06	−0.5	2.50	214.29	203.27	147.11	164.64	200.97	278.11	171.73	256.59
France (93)	188.01	−0.2	178.78	129.74	145.34	148.96	0.4	3.24	188.36	178.67	129.30	144.71	149.39	196.39	167.70	175.74
Germany (58)	174.11	−1.1	165.51	120.14	134.59	134.59	−0.4	1.82	175.95	166.90	120.79	135.18	135.18	177.63	155.66	157.99
Hong Kong (59)	426.36	−0.4	405.31	294.21	329.59	423.29	−0.4	3.50	427.98	405.96	293.80	328.81	424.89	451.19	354.67	359.79
Indonesia (27)	191.25	−0.3	181.81	131.97	147.84	274.63	−0.3	1.73	181.87	182.00	131.71	147.41	275.67	–	–	–
Ireland (16)	286.71	−0.9	272.55	167.84	221.63	248.87	−0.2	3.49	288.36	273.52	197.95	221.64	250.33	290.82	236.42	239.62
Italy (58)	74.50	−1.4	70.82	51.41	57.59	84.28	−1.1	2.58	75.60	71.71	51.90	58.08	85.19	84.53	67.22	78.21
Japan (481)	141.90	−0.7	134.89	97.92	106.69	97.92	−0.2	0.78	142.86	135.51	98.07	109.76	98.07	164.66	137.75	147.86
Malaysia (107)	549.16	−1.3	522.07	378.96	424.52	527.44	−1.3	1.72	556.17	527.56	381.79	427.30	534.17	585.09	425.77	511.52
Mexico (19)	1268.20	1.3	1205.59	875.11	980.34	10460.35	0.7	1.27	1251.97	1187.58	859.44	961.87	10385.37	1325.65	791.88	1158.04
Netherland (19)	298.28	0.4	283.54	205.82	230.56	226.78	0.2	3.26	297.21	281.92	204.03	228.34	224.72	304.24	249.34	248.61
New Zealand (15)	84.99	−0.7	80.79	58.64	65.70	65.41	−0.8	4.19	85.54	81.14	58.72	65.72	65.80	86.61	75.94	79.28
Norway (36)	249.98	0.2	237.64	172.50	193.24	218.52	0.7	2.07	249.57	236.73	171.32	191.74	217.02	256.94	222.24	227.89
Philippines (22)	206.45	0.6	196.26	142.46	159.58	270.23	0.8	0.81	205.17	194.62	140.85	157.63	267.84	–	–	–
Singapore (44)	396.85	−1.2	377.26	273.84	306.77	257.42	−1.2	1.48	401.86	381.18	275.87	308.74	260.60	465.21	380.49	367.82
South Africa (44)	343.39	1.3	326.44	236.99	265.45	335.50	0.9	2.26	339.01	321.57	232.72	260.46	332.51	437.76	314.20	347.47
Spain (37)	176.57	−0.3	197.85	121.84	136.49	167.83	0.1	3.48	177.05	167.95	121.54	136.03	167.72	183.85	145.15	151.30
Sweden (48)	359.83	−0.6	342.06	248.30	278.15	354.53	0.0	2.41	362.16	343.53	248.61	278.24	354.67	364.34	282.18	282.18
Switzerland (37)	246.83	−0.8	234.64	170.32	190.80	185.15	0.2	1.59	248.79	235.98	170.79	191.14	184.72	254.34	200.29	200.29
Thailand (45)	143.37	−1.8	136.29	98.93	110.83	140.81	−1.6	2.43	145.70	138.20	100.02	111.94	143.09	193.95	138.75	166.57
United Kingdom (200)	245.18	0.0	233.05	169.17	189.51	233.05	0.2	4.09	245.18	232.57	168.31	188.37	232.57	247.51	220.57	220.90
USA (625)	265.98	0.0	252.85	183.54	205.61	265.98	0.0	2.21	265.98	252.30	182.59	204.35	265.98	278.47	230.24	230.24
Americas (790)	243.54	0.0	231.52	168.06	188.26	204.79	0.0	2.20	243.54	231.01	167.18	167.11	204.79	252.43	211.15	211.15
Europe (706)	213.70	−0.4	203.15	147.46	165.20	184.02	0.1	3.10	214.48	203.45	147.24	164.78	183.81	216.96	190.86	190.86
Nordic (137)	312.57	−0.6	297.14	215.68	241.62	268.74	0.0	2.29	314.30	298.13	215.76	241.47	268.64	315.35	261.13	271.62
Pacific Basin (878)	156.03	−0.7	148.33	107.67	120.61	108.63	−0.3	1.28	157.12	149.04	107.86	120.71	109.83	177.01	148.86	157.91
Euro-Pacific (1584)	179.92	−0.5	171.04	124.18	139.08	137.68	−0.1	2.18	180.89	171.58	124.17	138.97	137.79	190.57	166.51	171.55
North America (743)	259.71	−0.0	246.89	179.21	200.76	259.06	0.0	2.21	259.72	246.36	178.29	199.54	259.06	269.52	225.01	225.02
Europe Ex. UK (506)	192.05	−0.6	182.57	132.52	148.46	158.37	0.1	9.54	193.13	183.20	132.58	148.38	158.27	195.76	170.51	170.66
Pacific Ex. Japan (397)	283.34	−0.8	269.36	195.52	219.03	244.44	−0.7	3.11	285.53	270.85	196.01	219.37	246.19	298.68	243.59	256.00
World Ex. US (1793)	181.52	−0.6	172.56	125.26	140.32	142.43	−0.1	2.17	182.38	173.00	125.20	140.12	142.52	181.65	167.36	172.70
World Ex. UK (2216)	204.12	−0.3	194.04	140.85	157.79	172.63	−0.1	1.99	204.73	194.20	140.54	157.29	172.73	213.05	185.61	187.27
World Ex. Japan (1637)	243.15	−0.2	231.14	167.76	167.98	229.08	−0.0	2.57	243.54	231.01	167.18	167.11	229.09	247.55	214.34	214.34
The World Index (2416)	207.84	−0.3	197.39	143.28	160.51	177.96	0.0	2.13	208.21	197.50	142.90	159.96	178.03	214.95	186.87	190.21

Latest prices were unavailable for this edition. MARKETS CLOSED 2/9/96: Canada and USA.